

JPRS-CAR-88-071  
9 NOVEMBER 1988



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

# **China**

**DISTRIBUTION STATEMENT A**

**Approved for public release;  
Distribution Unlimited**

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

**DTIC QUALITY INSPECTED 1**

19980713 161

# China

JPRS-CAR-88-071

## CONTENTS

9 NOVEMBER 1988

### INTERNATIONAL

#### NORTHEAST ASIA

SHIJIE ZHISHI Denounces Japan's Military Spending [SHIJIE ZHISHI 16 Aug] .....	1
--	---

### POLITICAL

Party, Government Officials Quit Simultaneously-Held Positions [LIAONING RIBAO 20 Aug] .....	3
Bureaucratism Seen Obstacle to Commodity Economy [SHIJIE JINGJI DAOBAO 22 Aug] .....	3
Cartoon Exposes Source of Corruption [JILIN RIBAO 6 Sep] .....	5
Liaoning Provincial CPC Committee's Six Rules on Honesty in Government [LIAONING RIBAO 20 Aug] .....	5

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Monetary Policy, Double-Tier System [JINGJI YANJIU 20 Aug] .....	7
Commentary on Faster Enterprise Reform [JINGJI RIBAO 9 Sep] .....	14

#### FINANCE, BANKING

Determining Appropriate Tax Breaks To Attract Foreign Investment [JINGJI RIBAO 26 Aug] .....	15
Qiu Qing Urges Support for Gold Production [ZHONGGUO JINRONG 4 Sep] .....	16
JINGJI RIBAO Reports on Shanghai Stock Market [JINGJI RIBAO 6 Sep] .....	18

#### INDUSTRY

JINGJI YANJIU on State Enterprises [JINGJI YANJIU 20 Aug] .....	19
---	----

#### CONSTRUCTION

Successes in Heilongjiang Building Sphere Noted [HEILONGJIANG JINGJIBAO 13 Sep] .....	26
---	----

#### ECONOMIC ZONES

Zhuhai Successful in Attracting Foreign Investors [RENMIN RIBAO 16 Sep] .....	26
---	----

#### POPULATION

Journal Views Population, Economy [JINGJI YANJIU 20 Aug] .....	27
--	----

#### TRANSPORTATION

Heilongjiang Shipping Bureau Helps Increase Trade With USSR [ZHONGGUO JIAOTONG BAO 17 Aug] .....	32
Liaoning Transportation System Experiences Difficulty [LIAONING JINGJI BAO 16 Aug] .....	33

#### AGRICULTURE

Article Views Futures Market [RENMIN RIBAO 5 Sep] .....	34
Large Pork Base Established in Jiangsu [XINHUA RIBAO 25 Aug] .....	35
Shaanxi Farm Machine Sales During First Half of 1988 [JINGJI CANKAO 19 Aug] .....	35

Hong Kong Pork Supply Base Proposed for Shenzhen [JINGJI CANKAO 12 Sep] .....	36
Revision in Xinjiang Agricultural Tax System [XINJIANG RIBAO 11 Sep] .....	37

## HONG KONG, MACAO

Hong Kong Publications Ponder Future .....	39
Basic Law Versus Emigration [CHIUSHIH NIENTAI Aug] .....	39
Lack of Faith [CHENG MING Aug] .....	41

## NORTHEAST ASIA

### SHIJIE ZHISHI Denounces Japan's Military Spending

40050029 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 16, 16 Aug 88 pp 13-14

[Article by Liu Wenyu 0491 2429 3768: "The Steady Escalation of Japanese Military Power"]

[Text] Japanese departments concerned are inclined to be cryptic about the escalation of their military preparedness. Why is that so? And does it not conflict with the main theme song of relaxation now heard in Japan's policy and in our present era?

At the beginning of this year, the Japanese Prime Minister Noboru Takeshita declared solemnly in the Japanese Diet: "It is not Japan's policy to become a great military power, and Japan is not going the way of a great military power." Does Takeshita make this kind of an assertion because he has realized that "in view of past history, Japan is the object of various kinds of criticism and the cause of anxiety?" However, in the face of the steady escalation of Japan's military power, an assurance of this kind by the Japanese prime minister is not convincing.

The Commander-in-Chief of U.S. Armed Forces in the Pacific Region, Hayes, testified on 15 March before the Military Affairs Committee of the U.S. Congress: "Japan's military expenditure, calculated at the present rates of exchange, exceeds that of Great Britain, France and West Germany," making Japan's the third largest military budget, after only those of the two superpowers, the United States and the Soviet Union. The U.S. Ambassador to Japan, Mansfield, also once said, that if one calculates according to the method used by the United States and NATO, the rate of increase in military expenditure is in no other country larger than in Japan.

Even so, Japan is still thinking of ways and means to break conventional restrictions and open the way for even faster increases in military expenditures. On 24 January of last year, the Japanese cabinet lifted the ceiling of 1 percent of GNP on defense spending and proposed to restrict the speedy increase in military expenditure by means of "a form of publishing a 5-year plan total." As a consequence, Japan exceeded the 1 percent limit in the two defense budgets for 1987 and 1988. With the so-called "publication of a 5-year plan total" Japan now intends to keep the total defense preparedness expenditure within that period (1986-1990) to below 18.4 trillion Japanese yen. On the surface, the 5-year plan total appears effective in restricting the annual portions within the period, but the key problem is the determination of the total for the 5-year period, for which there is no fixed limit. In May this year, the Defense Agency again stated that for the next 5-year defense plan it will employ a "rotation form" to be amended every 3 years, such amendments to be based

on the financial situation at that time, on the international situation, and on advances in technology. This makes a sham of the original form of publication of totals, which by itself had already been an impressive-looking but rather useless contraption. On 11 June, the Director General of the Defense Agency, Kawara Tsutomu, even bluntly declared: "In matters of defense expenditure, Japan must not spare large amounts of money." The Jiji Press Agency of Japan pointed out that Kawara's statement meant to indicate that "Japan's defense expenditure must not be restricted."

There may be an excusable reason for the Defense Agency to make strenuous efforts to expand military preparedness. But that unusual enthusiasm for the defense issue should be displayed by the Ministry of International Trade and Industry [MITI], which controls the economy and trade, and by the Ministry of Education, which is in charge of education, and even by the Ministry of Finance, which is in charge of preparing the national budget, gives people a strong feeling of something very odd.

MITI vice minister's research organization, the Japan Selective Research Society, recently set out that the issue of security guarantees, a topic which could not be directly discussed in the past, is now a key issue in Japan's international contribution. A report published by that society on 18 May says, that to fully assert the role of high technology, and not to lag behind in the international competition, Japan's industry "has, of necessity, to enter to an appropriate measure into the field of military requirements." The report urges MITI to change its past policy of "one-sided concern for only civilian requirements," and to concede a clear and definite place to the defense industry. The Kyodo News Agency of Japan said that this report "will guide MITI's future policy."

The Ministry of Education incurred serious criticism in 1982 inside and outside of Japan for its textbook revisions, but judging by the result of its 1987 textbook evaluation, published on 30 June, it not only suffered "a recurrence of the old sickness" in the way it treats Japan's aggressions of the past, but it also supports the present attitude of expanded rearmament, and even attempts to reverse Japan's renunciation of war.

According to reports, the Ministry of Education in its present evaluation of textbooks, did not change "aggression" into "advance," as it did 6 years ago, but when mentioning Japan's invasion of French Indochina, it changed "invasion" into "occupation." This shows that the Ministry of Education has not completely changed its tune in handling the question of Japan's invasions, and that it views the present Japanese military expansion through colored glasses. Japan now possesses a defense capability as only a few other countries in the world. But in the evaluation of the textbooks by the Ministry of Education, the "as only a few in the world" becomes merely "considerable." The actual state of

Japan's military power is thereby purposely concealed. On the subject of Japan's defense budget, the original draft of the textbook states that Japan's defense budget exceeds the ceiling of 1 percent of GNP, but that so far the "machinery" has not yet been found to prevent the excessive rise in defense expenditure. The Ministry of Education emphasized: It must be clearly said that in the matter of restricting the rise in defense expenditure, the government has replaced the "1 percent limit" by the "form of publishing 5-year plan totals." That clear differentiation is intended to inculcate in the minds of the young Japanese the government's mentality of deliberate military expansion. And even worse, in a small pamphlet explaining the new constitution, the Ministry of Education surprisingly remarked against an illustration with the heading "Renunciation of War," that "in the matter of renunciation of war, it is necessary to consider later changes in the international situation." As a result of this remark the said illustration was dropped. What is the meaning after all of all these naked words and actions of the Ministry of Education; it is all too clear.

In the face of the official attitude of utmost concern for military expansion, financial circles too cannot restrain the trend. In the past, Japan's financial circles considered defense policy a forbidden zone, and avoided speaking lightly about it. But the Economic Fellowship Society, in order to break the taboo, involved itself directly in the defense issue and on 7 June pioneered the establishment of a "Japan Security Research Society." This society will institute comprehensive studies on the entire defense policy, including the question of the defense budget exceeding the 1 percent limit. Judging by the way this society, at the start already, emphasized America's economic difficulties and dissatisfaction with America's attitude toward Japan's defense, it is obviously exerting

great efforts to urge an even quicker development of Japan's military power. In recent years, production at Japan's war industry is flourishing to an extraordinary extent. Marketing by Japan's war industry has for 6 years in succession exceeded the high mark of 1 trillion yen. Now that the very influential and powerful Japanese industrial circles take an interest in defense policy, the future situation, as far as defense issues are concerned, can be clearly foreseen.

The Defense Agency, MITI, the Ministry of Education, and financial circles all work in coordination to intone an aggressive symphony of military expansion. But the regrettable thing about it is that the louder the symphony becomes, it becomes less and less in tune with the main theme of the present era. The Japanese way of going against the tide arouses fear and indignation in its Asian neighbors and in other countries, and farsighted Japanese, too, disagree with the Japanese trend. Results of the "Public Opinion Survey on the Defense Force and Defense Question," recently published by the prime minister's office, show that three-quarters of the population have a negative attitude toward increases of the defense budget. According to the Jiji Press Agency of Japan, this clearly shows that "the Japanese people are disturbed by increases in the defense expenditure." The ASAHI SHIMBUN pointed out: "At a time when military expenditures all over the world are continuously being reduced, why does Japan want to continue increasing its defense expenditures? At a time when some improvements have been achieved in East-West relations, it is hardly possible for Japan to absolutely maintain the doctrine of the Soviet Russian threat, and stubbornly propose increasing its defense power?" This is a matter which the Japanese government should find worthwhile to ponder.

### **Party, Government Officials Quit Simultaneously-Held Positions**

40050052p Shenyang LIAONING RIBAO in Chinese  
20 Aug 88 p 1

[Summary] Liaoning Provincial CPC Standing Committee member and Provincial Secretary Yu Xiling [0060 1585 1545] announced to reporters on 18 Aug that effective that day, provincial party and government leading group members have resigned from official and honorary positions simultaneously held in companies. Beginning 19 Aug, the provincial party committee and government will send an inspection team to all the cities to look at the problem of lack of separation between government and enterprises.

Yu Xiling said that after the CPC Central Committee issued the circular on honesty in party and government organizations in June, the provincial CPC Committee has earnestly studied and discussed this problem and has formulated regulations for the province on honest behavior in the party and government.

The resignation of party and government officials from simultaneous positions in companies is part of the move to adhere to the regulations on clean government.

The positions and companies from which resignations were made were: senior advisor to the Liaoning Provincial Foreign Trade Corporation, senior advisor to the Liaoning Songliao Automotive Industries Joint Company, Honorary Chairman of the Board of the Liaoning Jinfeng Electronics Group Corporation, Chairman of the Board of the Liaodong Peninsula Trust and Investment Corporation, Chairman of the Board of the Liaoning Province Information Services Corporation, and senior advisor to the Liaoning Province Physical Education Services Corporation. All business positions, even honorary ones, held simultaneously in companies by officials in national-level departments, party committees, and provincial departments and bureaus must be voluntarily relinquished in the immediate future and the resignations must be announced.

### **Bureaucratism Seen Obstacle to Commodity Economy**

40050018 Shanghai SHIJIE JINGJI DAOBAO in Chinese  
22 Aug 88 p 15

[Article by Yang Chengxun 2799 2110 6064: "Bureaucratic Corruption Impedes the Creation of a Socialist Commodity Economy"]

[Text] Now that reform has reached a deeper level, certain chaotic and bewildering phenomena tend to appear readily. Corruption in party and government organs, in particular, causes popular dissatisfaction and makes some people skeptical about reform and opening to the outside world. In fact, these temporary phenomena are inevitable to a certain extent. When two systems,

two sets of prices, two social psychologies, and the positive and negative aspects of the early developmental stage of the commodity economy coexist, the negative elements left over from the product economy take advantage of the vacuum created by the transition from one system to the next to team up with the negative aspects of the early developmental stage of the commodity economy to disrupt reform at many points. It is exactly with this in mind that the CPC Central Committee has called for the establishment of a new order with a socialist commodity economy, a proper strategic slogan that is basic to reform intensification. The question is which central link we should focus on if we are to create a new order. What is the principal contradiction? How do we resolve it?

### **Chaos Mainly Comes from Within**

What really causes chaos and loss of control during the transitional period? Many people attribute them to the difficulty of price reform and society's poor tolerance. While there is certainly some truth in this, the question is why repeated efforts to check the loss of control in the course of price adjustment have failed. If we look further, we will discover an intermediate level that has been obstructing the formation of normal market prices. For instance: 1) Successive price spirals and loss of control in management are mainly the work of "official speculators." Facts prove that without colluding with "official speculators," "small individual speculators" scattered all over the market are "small fry unable to do much harm." Most frightening are "official speculators" who wield enormous power, control goods and materials, and are well-connected. 2) People buy up goods in short supply through non-market channels. In other words, they secure advantages through influence, in the process worsening supply shortages. 3) Cadres take bribes and pervert the law. As a result, certain management and supervisory departments not only fail to discharge their proper functions, but actually help the bad elements to do evil. 4) To a large extent, enterprises' myopic behavior is caused by the government's myopic behavior. In particular, we have over-extended the scale of urban capital construction in our eagerness for instant payoffs. Consequently, repeated efforts to trim the scale of capital construction have failed. 5) About the so-called "poor social tolerance," a lot of it has to do with cadres in the departments whose complaints and actions have the most direct impact on the leaders, forcing the latter to acquiesce in their improper activities. To sum up, internal "political" reasons as well as external economic factors have complicated price adjustment, with the former being the primary culprit.

As for the lax enforcement of law and discipline, that too is caused mainly by party and government organs themselves. The history and current situation of every nation prove that the strictness with which laws are enforced is precisely in inverse proportion to the number of organs of power and their personnel. This is because the more bureaucratic organs there are, the easier it is for the rule of man to replace the rule of law. The more officials there

are, the poorer their quality and the more complex the network of relations, which readily becomes a power clique whose members shield one another and flout the law. The law is an important instrument in the creation of a new order with a socialist commodity economy. But laws cannot be enforced rigorously as long as this barrier to law enforcement exists.

A major problem these days is corrupt practices in the ranks of cadres. These practices are inseparable from large bureaucratic organs serving as a breeding ground on which worms and parasites depend for survival and multiply. In my opinion, this poses a far greater danger than the risk of price adjustment. This is because prices are pegged to wages and allowances. Their livelihood thus guaranteed, the masses can understand price adjustment. Corrupt practices, on the other hand, are no rallying point around which to unite the masses.

To understand and solve the problem scientifically and pragmatically, we need to further ponder it at a deeper level: Just what kind of socialist commodity economy should we try to achieve? The 13th NPC summed it up this way: "The state regulates the market and the market guides the enterprises." What then stands between us and this model? In brief, the institutions of the old product economy. I do not think we should regard them merely as the superstructure. As a matter of fact, they are the very core of the product economy or, to put it differently, the center of regulation and distribution. Of course, the state is also the center of the new regulatory market. So does it follow that the state organs that served as the center of regulation under the product economy can be transplanted to the socialist commodity economy? In what ways do the two differ? The facts outlined above make it clear that we cannot simply transplant the state organs. Instead, a new set of organs is needed, organs that have to differ from their earlier counterparts. To begin with, instead of relying mainly on administrative fiat to directly control enterprises, the primary function of the new organs is to guide the market with economic and legal instruments and use the information feedback system to create dual operating mechanisms—market regulation and a regulated market. Second, they must be streamlined and made highly efficient. Moreover, they must be staffed by people selected competitively. Also, their creation, replacement, and operation must embody the unity of democracy and legality. If we fail to transform and overhaul the traditional political institutions and state organs, we can go nowhere.

Now we need to ask ourselves: Why is it that the product economy, long held to be a basic attribute of socialism, is closer to feudal things than even the capitalist economy? I think the most important reason is this: the philosophy behind the economy characterized by "direct production and direct distribution" centers on supra-economic (that is, non-market) management. Highly centralized state management organs and coercive administrative methods are the backbone of the product economy. Thus it

follows that every country that practices economic planning has a mammoth administrative bureaucracy and a complex, highly stratified army of cadres. All societies in history that ran their economy through supra-economic control inevitably created power interest mechanisms and their vehicle—a huge bureaucracy. A classic example is the feudal society. Supra-economic control curbs market competition, stifles economic vitality, and is the primary reason behind the longstanding economic stagnation. Certainly, the massive administrative organs fostered under the product economy have basic class differences from those mentioned above and should not be equated with them. However, what makes one pause and think is that the two share many similar administrative methods and the resultant social phenomena. One of the deep-seated flaws of the product economy in China over the last few decades is an ever-growing bureaucracy that has now reached unprecedented proportions. Of course its historical role cannot be denied, but 10 years of practice in reform proves that more and more it has become the chief obstacle to the development and functioning of a socialist commodity economy and the establishment of a new order. Failure to transform this vast bureaucracy will be tantamount to keeping the heart and backbone of the product economy.

Needless to say, it is tough to reform bureaucratic organs: they are the very institutions we rely on to reform and manage the economy. This is why reformers in the last few years have left the bureaucracy more or less intact. Now that we have cleared the periphery and carried out other easier reforms, we must perform radical surgery on the heart and the center. Otherwise it will be very difficult to replace the old system with the new across the board.

#### **Fewer Party and State Organs and More Private Enterprises**

Compared to the way we reformed the economy, the wage system, and housing, we have been excessively charitable and timid in reforming the mammoth party and state organs. Apparently we have too many worries. On the one hand, we hate to part with "tradition." On the other hand, we are loath to do away with the plethora of new organs known by all sorts of names. In fact, if we streamline the organs boldly and resolutely, no chaos will ensue. On the contrary, the economy will become even more vitalized and the burden on the state coffers will be reduced substantially, thus relieving more human and financial resources to develop productive forces.

What precisely should we do? Mass democracy will not help matters and may actually make things worse. The correct approach is to combine "organ abolition with the establishment of private enterprises" from the top down. We should ruthlessly and drastically abolish or streamline the myriad party and state organs surviving on government largess, at the same time actively supporting the large number of budding private enterprises, notably

production enterprises, technology and trade enterprises, and enterprises to be set up abroad. About the thorny issue of finding jobs for cadres, my thinking is as follows: "Let private enterprises and institutions absorb the cadres. Everybody is given help according to the category to which he belongs and should have a role to play." We should rely mainly on private enterprises and institutions to absorb the cadres. That way what used to be a burden will turn into an asset and everybody can make full use of his talents and earn a higher income. The government should support this if necessary. The deregulatory experience involving both scientific research institutions and personnel in the past 2 years fully testifies to the soundness of the approach of "finding a way out when everything else seems to have failed." About the gigantic contingent of cadres, we should let some go, convert some, train some, send some, select some, and keep some. Practices in Guangdong and southern Jiangsu tell us that the enterprises are properly and profitably run, that most cadres would not necessarily linger in the corridors of power and that climbing the bureaucratic ladder is not the only goal. This would go a long way toward changing the idea that being a bureaucrat is everything and nurturing a social climate that honors entrepreneurs and technological personnel.

It is foreseeable that the road of "combining abolition with establishment" will lead to genuine separation between bureaucracy and business and between government and enterprise. Streamlined and highly efficient organs will perform new functions and gradually create a regulatory center for the functioning of a socialist commodity economy. If government is honest, the law is enforced rigorously, and democracy is made more open, other reforms, including the more difficult ones such as price reform and wage reform, will be assured of smooth sailing. Also, enterprises will become more independent. Based on such thinking, I propose that our push for a new order zero in on the acceleration of organ reform so that it will be the engine to drive reform as a whole.

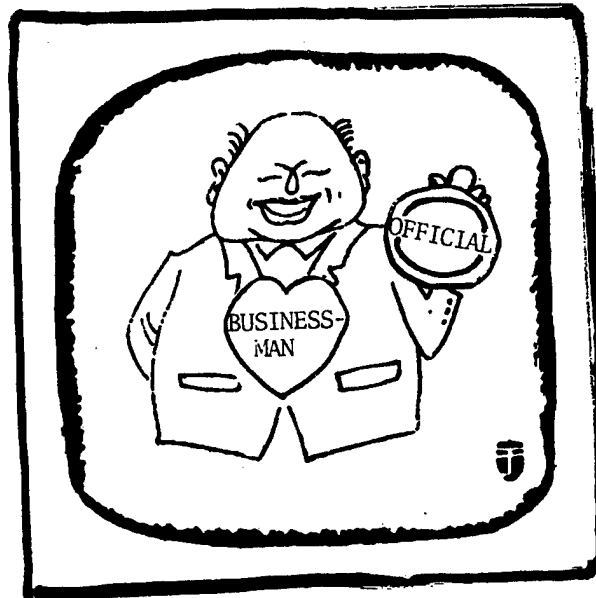
### Cartoon Exposes Source of Corruption

40050055p Changchun JILIN RIBAO in Chinese  
6 Sep 88 p 3

[Cartoon by Yu Jingcai 0060 2529 2088]

[Editorial Note] "Transparency" is a measure the Chinese are employing to combat corruption and further political structural reform. It involves making the procedures and processes of government clear for all to see. When the workings of government are transparent, officials and cadres will not be able to hide wrongdoing.

The cartoon shows that "transparency" has revealed that many businessmen are also government officials. This situation has resulted in much corruption. Now some localities are forcing government officials to resign from business positions, even honorary ones.



TRANSPARENCY

### Liaoning Provincial CPC Committee's Six Rules on Honesty in Government

40050051p Shenyang LIAONING RIBAO in Chinese  
20 Aug 88 p 1

[Summary] On 10 Aug, the Liaoning Provincial CPC Committee issued the text of regulations designed to foster honesty among members of provincial party and government leading groups.

Honesty among Liaoning's provincial party and government leading group members depends on whether leading cadres at all levels and, in particular, provincial party and government leading group members will take the lead. To help them, these regulations were issued:

1. Honesty in government must be viewed as a high priority and leading group members must consciously make of themselves personal examples. They must follow the party's good traditions, keep from seeking personal gain, strictly discipline themselves, and dispense with their duties in an ethical fashion. Not only must they not seek private gain, they also must not use their positions to obtain private gain for others.
2. They must not engage in business and run enterprises. They must not hold simultaneous appointments with enterprises or companies, including honorary positions. Those who must hold positions in academic societies or other such public social organizations must not obtain any kind of remuneration therefrom.
3. They must not accept invitations to dinner, accept gifts, engage in waste, disregard regulations, host dinner parties, and give gifts.



4. They must see to it that relatives and business associates do not abuse official position to seek personal gain and harm the public's interest.

5. They must earnestly investigate serious cases of errant behavior occurring in the different departments over which they have jurisdiction.

6. They must consciously accept the supervision of the masses and listen to their opinions. The standing committee of the provincial Democratic Life Society must make honesty in government an important part of its agenda.

The above regulations are effective 10 Aug and are being circulated to provincial party members, cadres, and the masses.

## NATIONAL AFFAIRS, POLICY

### Monetary Policy, Double-Tier System

HK0110081988 Beijing JINGJI YANJIU in Chinese  
No 8, 20 Aug 88, pp 18-25

[Article by Song Guoqing (1345 0948 7230) of the Research Institute on Reform of China's Economic Structure: "Monetary Policy Under the Double-Tier System"]

[Text] China's existing economic structure is a double-tier structure that combines planned management and market regulation. Under the double-tier system, the monetary policy has special contents:

#### I. Monetary Policy and Planned Management

In a modern market economy, money supply is determined by the independent monetary policy of the Central Bank. On the surface, it is a kind of demarcation between the government's internal functions and powers, but its basis is market regulation in which the government's management of the economy is limited to indirect intervention.

Under the traditional centralized planned management structure, the plan of money supply (credit and loan plan) is only the shadow of the national economic plan.<sup>1</sup> Following the fixing of the plan on production and use of national products and the fixing of the prices, the money supply plan is also fixed. This is because the production and use of national products are linked up by means of distribution and exchange is the basic form of distribution. Exchange (not including exchange in kind) is the exchange between the flow of goods in kind with flow of money. The nominal value of these two kinds of flows is forever equal. Thus, in the three volume changes of the quantity flow of goods, quantity flow of money and the general level of prices, there are only two independent volume changes. Hence, with the existence of the plan of flow of goods and the plan for prices, the volume of flow of money is automatically determined through exchange, and the existence of another independent monetary policy is not permitted. Money supply follows the plan. It is manifested not only in the process of the formulation of the plan but more importantly is in its execution. The nucleus of the plan management structure is not the formulation of the plan but is its execution. After the money supply plan is formed following the formation of the economic plan, the angle of planning is unanimous for both, but in their execution there is always some disparity somewhere. A plan cannot utilize the resources to a precise degree. In many cases of production and sales, the plan can only adopt the method of fixing a low limit and in the course of execution encourage the production units within a specified scope or under certain definite conditions to try their best to overfulfill the targets. By so doing, in actual execution, prices (including salaries and wages) are fixed while production and exchange are the initiatives and money supply is

passive. In its actual execution, the monetary supply plan is a weak plan. In this context, planned management and an independent monetary policy stand opposed to each other.

Under the present double-tier system, the scope of the role of mandatory planned management in the national economy has obviously decreased, though it still exists. At the same time, there exists a type of management with no fixed quantitative targets but carried out in policy form from top to bottom whose nature is the same as that of planned management. Under such a double-tier structure the relations between planned management and money supply form a special kind of relations. Below we shall discuss the relations between the management of certain concrete plans and policies with money supply. Following this, we shall discuss certain management principles governing the monetary policy under the double-tier system.

#### II. Policy of Purchasing and Marketing of Agricultural Products and the Credit and Loan Plan

In the past, in our country the unified purchases of agricultural products were in two forms. One form may be known as fixed base (fixed quantity) purchase, that is, the state issues to the production unit a base figure of the sales quantity and make the purchase according to the fixed price. The other is in the form of a unified purchase without a fixed figure and includes two types: One is making a simple sole purchase from the market and the other is to issue to the production unit a planting plan. The production unit, aside from retaining a small quantity of the products, sells the remaining portion to the state. In adopting the form of sole purchasing from the market, too low a list price will seriously affect the production volume and even in the case of the issuance of a planting plan, too low a list price will also make the unit's production lower. Hence, under the condition of the average list purchase price tending to the low side, in actual execution regarding those agricultural and sideline products which can be subjected to a fixed base, the practice is gradually to fix a delivery base figure. For the remaining products on which we cannot fix a base figure, a unified purchase without a base figure is made.

So far as the unified purchase without a base figure is concerned, regardless of whether or not there is planting plan management, the actual output value and purchase quantity cannot be determined beforehand and the relevant amount of purchase loan also cannot be fixed beforehand. In this connection, the loan plan is in reality an estimate and plays no restrictive role in the course of execution.

As for purchases according to a fixed base figure, a similar possibility exists. The base figure fixes the lower limit and if the production unit is willing to sell in excess of the base figure and if the state also adopts a policy of opening up the purchases, then it is not possible to fix in advance the purchase volume and the purchase loan.

Hence, the agricultural products purchase structure itself already contains the possibility of large-scale fluctuations in the purchase volume and in the purchase loans. Tightly fixing the purchase price and simultaneously opening up the purchase policy may lead to an excessive money supply.

Prior to 1981, the policy of tightly fixing the list price and opening-up the purchases did not cause any over supply of money. The reason was that the list price had been fixed too low and the production units generally did not wish to sell in excess of the base figure. Although the list price in the unified purchases without any base figure was a little higher, the objects of the purchases consisted of only a small portion of the agricultural and sideline products. For example, despite the fact that the over-purchase of tobacco leaves and hemp did occasionally occur, the excess issuance of banknotes on this score was not large. Thus, each year the actual gross purchase volume of the agricultural and sideline products differed little from the planned purchase volume. The execution of the plan for purchase loan of agricultural and sideline products was precisely carried out on this basis, but this basis was not a stable one.

It was prior to 1983 that a situation of the difficult sales of agricultural and sideline products began to appear. At the time it was the consensus of opinion that inconsistent circulation was the cause and hence on every side the commercial departments were asked to open up the purchases under the conditions of the excess purchase price and the already-lowered market price being close to each other, the policy of opening up the purchases soon led to the excessive purchases of such agricultural products as grain and cotton. It was precisely this excessive purchase that led to the rapid rise in the peasants' monetary income and consumption demand and played an exceedingly important role in the inflation of general demand in 1984. In 1984 in the cities and towns the retail sales volume of commodities increased by 16.8 percent over the preceding year and in the rural areas the increase was 19.7 percent.

At present, the unified purchases and unified sales of agricultural products have gone through certain changes. The scope and gross volume of purchases without a base figure have continuously increased and their prices cannot be too low. Under the conditions of purchases at fixed prices, it is easy for large-scale fluctuations to happen in the purchase volume and the purchase funds. Up to now, the actual granting of loans for purchases of agricultural and sideline products is not fixed by the bank and the pre-determined loan plan is also under no restrictions. Under such a structure, simply saying whether the monetary policy is loose or tight does not grasp the problem's crucial point.

### III. Wage Policy and Credit and Loan Plan

Under the past structure, in enterprises and government organs alike, salaries and wages were under the unified management of the state and any plan to increase salaries

and wages in the enterprises was just a plan to increase money supply. Under the current structure, the salaries and wages system of the enterprises is still in the course of probing and reform. There are still many problems.

At present, in the state-run enterprises and a sizable portion of the town and township collection enterprises, the principal form of salaries and wages is fixed (including basic salary and wage and fringe benefits and subsidies equivalent to the basic salaries and wages) plus changeable wages (bonuses and fringe benefits). The gross level of the per capita fixed salaries and wages is determined by plan and a relatively average distribution is enforced; the changeable salaries and wages are taken out on a fixed proportion from the profits of the enterprises. Seen macroeconomically, the regulation and control of the wage policy principally involve two volume changes: One is the proportion between the gross volume of wages and the gross volume of the national economy and the other is the ratio between fixed wages and changeable wages. There are 3 regulatory and controlling measures that can be directly employed: 1. Fixing the level of the normal fixed salaries and wages; 2. Readjusting the proportion for bonuses and welfare funds from the enterprise's profits (in reality this proportion basically does not change); and 3. Readjusting the bonus tax.

Generally speaking, whether the general level of actual salaries and wages is high or low is not at all important to the supply of effective labor. But if the ratio of changeable salaries and wages is relatively high then it helps in adjusting the enthusiasm of the workers. Despite that, inside many enterprises the bonuses and welfare benefits are equally distributed, yet because the size of the gross volume of changeable salaries and wages is determined by the size of the enterprise's profits, the efforts on the part of the plant head and manager to increase the enterprise's profits have the workers' support. This carries an important significance under the current conditions of strengthening the enterprises' control of labor and the enforcement, to a certain degree, of distribution according to work. The problem is that inside the enterprises the differences between the per capita changeable salaries and wages are determined by complex factors which in certain cases are unjust ones. In addition, various kinds of civilian enterprises, including privately run economy, have developed rather rapidly. Their salary and wage system is relatively flexible and on the average the level of salaries and wages is relatively high. Seen from the workers' point of view, conditions of this kind also embrace certain unjust factors.

Just as the policy of opening up the purchase of agricultural and sideline products is inconsistent with an independent monetary policy, the existing salaries and wages policy likewise repel an independent monetary policy. First, once the basic salaries and wages are raised, the enterprise's circulating funds and loans must also increase. Second, if the enterprise is unable to obtain compensation from raising the prices of its products, then there will be the result of a fall in profits or even a

deficit may appear. Under ideal conditions, once an enterprise incurs a deficit, then the basic salaries and wages should not be paid. On the contrary, in actual practice, not only do the majority of enterprises incurring deficits pay their basic salaries and wages as usual but also some enterprises which have incurred deficits have paid out bonuses just the same. The possible sources of such payments of salaries, wages and even bonuses could be loss subsidies from state finance, or from bank loans, or from various measures of hitching up work done by those in charge. Even though putting aside the problem of enterprises being in the red, the fall in profits of the rank-and-file enterprises can also breed such results as insufficient production development funds and reduction in the state's financial receipts and if and when there is a financial deficit, bank loans must be sought to effect a balance. Therefore, such readjustment measures of salaries and wages as increasing the basic salaries and wages and reducing the tax rate on bonuses will, in the end, lead to an increase in money supply.

The key of the problem lies in that at present the enterprise's wage system and the target of the wage policy are not coordinated. Regarding the target of the wage policy it has not yet been made known up to the present but seen from the actual policy it can be summarized as to be on two sides: On the one hand, to arouse the enthusiasm of the workers so as to maintain the stable growth of the economy and on the other hand to maintain being comparatively just and generally being jointly affluent. Although taking from an enterprise's profits a fixed ratio to serve as bonuses and welfare benefits may relatively speaking arouse the enthusiasm of the workers, it conceals certain unjust factors and disparity in wages connected with it. For example, even though in recent years, under the conditions of a fairly high degree of economic growth, the actual income of a portion of the staff members and workers was still lower than the preceding year and even continued to fall, thus leading to an increasing number of problems. In reality, even under the conditions of a stable growth in the national economy, the profits of enterprises do fluctuate, and there is always the possibility of the actual per capita profits of a certain portion of the enterprises being lower than that of the preceding year, and in some cases the fall may be a sustained one resulting in the enterprise's bankruptcy. Neither planned management nor market regulation can avoid conditions of this kind. Under the conditions of the linking of bonuses and fringe benefits with profits, each year it happens that inevitably the actual income of the staff members and workers of a portion of the enterprises is lower than that in the preceding year and may even continue to fall. Indeed there is no way to realize the supposition that the method of linking wages with price indices can prevent the fall in the wages of a portion of the staff members and workers. Linking of this kind at its start may lead to speeding up currency inflation but after that there is still no way to avoid the results of a portion of the staff members and workers suffering from a decline in their actual income.

The contradictions between the target of the wage policy and the wage system has led to the results of the continuous inflation of normal wages. Such an inflation is realized through fixed wages and changeable wages chasing after each other in their rise as well as through the wages between different departments (including enterprises, business and administrative units) likewise chasing after each other in rising. In 1984, after enforcing the bonus system in the enterprises, wages of the bonus categories in the enterprises rose rapidly and income disparities were quickly widened, resulting in society's violent reaction; in 1985 this was followed by raising the wage level of the business and administrative units and at the same time through a blanket reform of the wages of the enterprises a portion of the bonuses was converted to the status of basic wages. This blanket reform in the wages of enterprises shortened the wages disparity between the enterprises and at the same time, under the conditions of raising the general level of the normal wages, lowered the proportion of the changeable wages. The result was that the workers' enthusiasm was affected and many problems were generated. This readjustment was overdone and so in 1986 the bonuses were increased by means of readjusting the bonus tax. After several changes back and forth, the general level of normal wages rose in a sustained manner and likewise pushed the sustained rise in the price level.

During the initial period of the continuous rapid growth in the normal wages, since price changes usually fall behind a little, a sort of fantasy is usually formed as if everybody's real income is on the increase, except that some more quickly than others. For a time, such a fantasy conceals a contradiction in the wage system. But once a relatively higher currency inflation continues to develop and becomes increasingly serious, then the real status is revealed. It can then be anticipated that the social reaction against the injustice of the wage system will increase in violence.

Generally speaking, a precondition that can be formed by an independent monetary policy is that the market determines the wages of the enterprises. Under the conditions of the state directly intervening in the management of wages, an independent monetary policy is inconceivable. So far as the present structure is concerned, it is very difficult that by means of tightening credits and loans we can at the same time achieve the two objectives of checking a rise in wages and making wages relatively rational. On the contrary, we should tighten credits and loans by means of adopting the policies of checking the rise in the gross level of wages and making the wage structure relatively rational.

#### IV. Investment Planning and Credit and Loan Planning

Under the original structure, in the entire society by far the largest proportion of fixed assets investments is transacted by financial appropriations. Credit and loan inflation is in general the shadow of inflation in investment planning. The two are really the same thing. Now

there are the two portions of investments inside the plan and investments outside the plan and the relations between the investment planing and money supply have thus become relatively complex. Theoretically speaking, investment plans should follow the monetary policy and the financial policy. That is, first, there must a fixed monetary policy which must be made to exert hard restrictions and then we proceed to work on as many projects as the available amount of money permits. But seen from the conditions in recent years, two great problems have made impossible the realization of such an ideal condition: One concerns the problem of policy and guiding ideology; and the other concerns the problem of relations with the double-tier system.

First, it is very difficult to grasp a suitable ratio between the two portions of investments inside the plan and outside the plan. Speaking from the current structure, it is hardly workable not to concentrate investments on certain important projects, yet the problem of there being many small divisions in the investments outside the plan is an outstanding one. But increasing the amount of funds for concentrated investments inside the plan implies that there will be additional taxes on the enterprises and reducing the localities' ratios of retention of their financial income. Both will affect the enthusiasm on the part of the enterprises and of the localities to increase their earnings. Moreover, the investments inside the plan themselves also have certain problems. Considered as a whole, we should grasp an appropriate ratio of investments inside the plan. But the current problems are, outside of the various loans, the proportion of the sources of funds for investments inside the plan tends to be rather small, at least smaller than the ratio which the relevant decision-making departments consider to be appropriate. With the planned investments not having sufficient funds in support, the banks are then pressed to provide loans or finance will press the banks for funds. The investment inflation in the past may be said to have been mainly due to errors in planning (forecasting) while at present the investment inflation may be said to be due to deliberately breaking the rules.

One of the causes leading to deliberately breaking the rules may be due to different quarters having different views regarding suitable proportion between investments inside the plan and those outside the plan. But the problem is that these different views may form or affect the actual policy and thus make the relevant policies contradict each other. For example there may be the contradiction formed by the policy of reducing taxes and ceding profits and reducing the scale of the investment plan. One of the methods in handling this contradiction is for the departments concerned to conduct negotiations among themselves but such negotiations frequently lead nowhere and may end by ultimately increasing the credit and loan funds of the banks.

Another cause of investment inflation resulting from knowingly breaking the rules is that in the guiding thinking too much hope is placed on the merging of

funds, assuming that through developing various kinds of funds-merging the problem of the distribution ratio of income tending to slant toward one side may be solved or rectified. Each year now efforts have been made to be control the scale of investments outside the plan but in reality scanty results have been achieved. There are two methods of controlling the scale of investments outside the plan: One of them is literally speaking "taking away the firewood from under the cauldron," that is, collecting more taxes from the enterprises and raising the state's distribution portion of the income. The other method calls for directly depressing the investment scale, having the amounts fixed ahead, cutting down the number of projects, and requiring the examination and approval of projects. This is the method of so-called "trying to stop water from boiling by scooping it up and pouring it back." The practices several years ago tended slightly to the latter method, on the one hand arousing the enthusiasm of the localities and enterprises without reducing taxes or ceding profits and on the other hand employing a method of year after year reducing the scale of the investments outside the plan. Concealed in this type of policy contradiction is the hope that reducing taxes and ceding the state's profits will stimulate the enthusiasm of the localities and the enterprises. On the other hand it is hoped that, by means of funds-merging, the central authorities can borrow from the localities and the enterprises a portion of their income for planned distribution. The method of levying loans from the localities and the enterprises is very much like collecting taxes, although it is slightly more flexible than formal tax collection. In addition, another method of controlling investments outside the plan is to control the gross outlay of the localities and the enterprises, and force them to increase their savings. However, the controllers of local governments and enterprises are different from the individual resident. The former pay a more important regard to having in hand the actual power of distribution and not the "ownership right" which is not subjected to their distribution. The localities and the enterprises seek an increase in earnings not merely for the purpose of spending them. If we sternly control the expenditures of the localities and the enterprises with the result that those who can earn more cannot spend more but can only loan to the central government or, via the banks, loan to other localities or enterprises, then the policy of reducing taxes and ceding of profits will lose its significance and will be more like the system of unified receipts and unified expenses.

On the side of the structure, there is the problem of who should obey whom with regard to the goods volume target and the monetary volume target. The basic target in the investment plans of the central authorities is the goods volume target (production capacity) and under the conditions of possible changes it is difficult to determine beforehand the exact amount of investments. If finance is required to support an investment but cannot at will readjust the revenues and other expenditures then there is bound to be a crevice. This is a sort of unexpected crevice. In addition, in the gross national savings the

portion of the residents' savings is also substantially large and it is possible to take from it a portion to support the investments inside the plan. If the monetary policy is a rigid one, then what size this portion should be can neither be determined beforehand. Even though between finance and the banks there is usually a demarcation of burden with regard to the supply of funds for the investments inside the plan, before such uncertainties there is also the problem of who will be finally responsible. If it is finance that takes up the burden and can float treasury notes on a non-apportioning or compulsory basis to make up for the anticipated and non-anticipated deficits, then there must exist intermediate merchants dealing in bonds and treasury notes at floating interest rates and in competition with each other. If this point can be achieved, then the reform of the banking system should have been done long ago. If this point cannot be achieved then to ensure the priority of government bonds or treasury notes the interest rates offered should be higher than those ordinarily available from banks' savings deposits. Under the conditions of the unified management of the banks, this method has no substantial difference from the banks absorbing deposits first and then granting loans to finance.

Considered from the standpoint of investments, there must be an independent monetary policy. First of all, the state's investment planning must obey the commands of available funds. If this is so, then there may appear the condition of an imbalance between the ratios of the two forms of investments of one being within the plan and the other being outside the plan. In certain countries of the market economy, state investments do exist but their state investments and social investments frequently replace each other. Whether the state invests more or invests less does not give rise to any serious problem in the investment structure. At such a time state investments can obey the restrictions of money supply. Under China's current conditions, at least it is still rather difficult to have investments inside the plan obey the restrictions of the money side. Therefore, investment planning, financial policy and monetary policy can hardly be truly segregated. Although demarcation of the functions of the comprehensive departments can be, and should be, improved, their strict segregation and be only in form and lack actual contents.

#### **V. Plan for Receipt and Outlay of Material Resources and Money Supply**

Under the existing double-tier system, the planned management of material resources and foreign exchange not only has become smaller in scope, but the articles under planned management are also differentiated into the two portions of inside the plan and outside the plan. The objects of planned management are no longer a kind of product (or foreign exchange) in its gross social volume, but the sources and direction of the two portions of the plan. This kind of change is not merely change in quantity, but it makes the actual contents of the planned management of resources and foreign exchange different from before.

Under the traditional system, the basic content and basic form of planned management were the control of the flow of goods, material resources, and products. However, to employ this viewpoint to interpret the management today of material resources and foreign exchange can hardly grasp the essence of the problem. The conditions of the abundance or shortage of a kind of products inside the plan have increasingly differed from the conditions of its supply and demand in society as a whole. Under various conditions, the state can employ the method of buying at consultative prices (including importing) and selling at parity prices to compensate the disparity in the receipts and outlay of articles at parity prices inside the plan.

Generally speaking, under the conditions of dual prices or multifold prices, transactions and circulation of products and foreign exchange carried out at various list prices different from the market prices are based on the demand of mandatory plans. The target of this kind of plans is no longer the balancing of whole society's supply and demand with respect to products or foreign exchange. For this reason it can be called as the central receipt and outlay plan for goods at parity prices (or foreign exchange). Here, the usual form seen in planned management is, on the one hand, assigning the production units the base figures for delivery of parity price products or foreign exchange and, on the other hand, fix for the buying units the distribution limits for the purchases at parity prices. Under various conditions, so far as the enterprices and localities are concerned, to say that such base figures and limits represent goods in kind is no better than saying that they represent fixed differential prices between market prices and list prices. Following market development, production, utilization and circulation, the two portions inside and outside the plan are getting more closely linked together everyday. That is to say the production units sell their products (or obtain foreign exchange for them) at two different prices, the using units purchase them at two different prices and the two kinds of circulation are gradually connected. Thus, "the goods in kind nature" of the base figures and purchase limits is becoming increasingly weaker and the manifestation of the value character is becoming increasingly stronger. Seen from this angle, the realization procedure of the base figures and purchase limits may be seen as a circulation procedure of certain certificates or coupons. The purchase limits of parity price products or foreign exchange, or rather their conversion into coupons, constitute the purchase certificates and these certificates, plus the money calculated at parity prices, can be used to purchase the relevant articles or foreign exchange; moreover, because of this possibility, in reality under certain conditions the certificates can be exchanged singly or by themselves.

The circulation of certificates has two sides in its contents: one of them is exchange, including the use of certificates plus money to purchase commodities and the direct buying and selling of certificates; the other is

collection and distribution, that is, the planning department collects from the production units and distributes to the enterprise units and individuals. The collection and distribution by certificates not only are in form similar to monetary finance but also have the common quality of transfer of value. Hence, the collection and distribution by certificates may be termed as certificate finance. Certificate finance is an important form in the state's redistribution of income under the double-tier system.

Certificate finance and monetary finance are interrelated. If the certificate finance of a certain product incurs a deficit in receipt and expenditure, then this may be compensated by means of the method of "negotiation converted to parity," in which case the deficit of the certificate finance is converted into a relevant subsidy from monetary finance. If there is a surplus in the receipts and expenditures of the certificates of a certain product, then by means of the method of "parity converted to negotiation" it is converted into surplus of monetary finance. In actual practice, naturally there is no need to maintain a balance in the receipts and expenditures of each and every kind of certificate. Nor is there any necessity of achieving a balance of the gross receipts and expenditures in the differential prices of certificate finance. However, the gross deficit in the differential prices of certificate finance must be in line with the ability to meet this subsidy on the part of monetary finance, otherwise problems in the realm of monetary finance may arise.

Since 1979, first in the purchases of agricultural and sideline products, the system of two prices was universally adopted. Subsequently, on the side of the means of production, dual prices have come into general use. These two big measures have played an important role in stimulating the production of goods in short supply. Nevertheless, due to the slow rise in the upward delivery base figure for parity prices whereas the purchase limits at parity prices have been opened up too rapidly, the deficits in certificate finance have continuously increased, leading to the continual increase in the relevant subsidies from monetary finance. And this has become an important reason for the currency inflation.

According to the supposition of certain comrades, the transition of the double-tier prices to unitary market prices can be done through gradually raising the list prices or continuously reducing the circulation ratio of the list prices. This kind of supposition believes that the reason for not loosening the prices is that loosening them all at once will cause too great a stir but that a gradual loosening can solve the problem. In reality, seen from the actualities in the past years, the existence of double-tier prices is intimately related to the enterprise structure. The proportionate distribution system of profits currently in operation in the enterprises, taken as a sort of unified standard, relatively speaking can arouse the enthusiasm for increasing the enterprise's profits on the part of the workers and the manager, but there are also

two serious problems. One of the problems is that the differences in the per capita profits in the enterprises lead to differences in the per capita level of bonuses and welfare benefits and so far as the workers are concerned these differences are unfair. The other problem is that the setting aside and input at a fixed ratio for the enterprise's production development funds leads to various problems such as the small-scale scattering of investments. Facing these two problems, the departments-in-charge in the localities and enterprises adopt a series of non-standard regulation measures, including one of, to a certain extent, "taking from the fat and compensating the lean." In this connection, there are regulations in monetary form as well as regulations in the base figures and limits. For example, increasing the ratio of the upward delivery of products at parity prices by enterprises which occupy or use more per capita assets; and also increasing the base figures of the upward delivery of products at parity prices or foreign exchange by enterprises in the industries and trades which enjoy better conditions. Compared with the standard regulation in monetary finance, a special feature of certificate finance is that its regulation is of a non-standard nature. It is true that this kind of non-standard regulation is not always advantageous and moreover incurs a rather large cost price, but, under the current enterprises structure, lacking this sort of regulation may lead to even bigger problems in the distribution of income. In addition, certificate finance still has another special feature, that is, enforcement of the measure of the upward delivery of products at parity prices or foreign exchange according to fixed base figures makes smaller the effects of parity prices on marginal production. If a unified proportionate tax is additionally levied on the enterprises currently delivering upward products or foreign exchange, and at the same time the prices are opened up, then the marginal actual prices gained by the enterprises will be lower. Both the double-tier prices and certificate finance will need to be reformed, but it would be much better if the above-mentioned problems could be solved in a certain way.

There is an extremely serious problem existing in the current certificate finance and the most important point is that the receipts are small while the payments are large, resulting in the deficits becoming increasingly larger. On the one hand, the granting of the limits on purchases at parity prices is extremely irrational; and on the other hand, the base figures for upward deliveries at parity prices are considered as unable or difficult to increase. The latter point is a misnomer. In order that low prices will not fall on marginal production, it is not necessary to fix for the enterprises a dead or unchangeable base figure for the upward delivery of products at parity prices. The base figure can be increased, provided such an increase has no effect on the operation conditions of the enterprise. If it is taken by the enterprise as an external change in volume, then the parity prices will not fall on the marginal production.

In spite of the fact that to the enterprises and individuals certificates more importantly represent differential

prices, yet in the central government's revenues and expenditures plan, they are first of all treated as representing goods in kind. This point leads to a fundamental contradiction. Since the formation of the plan for the receipts and expenditures of certificates takes first the flow of goods in kind while the flow of money follows next, it is very difficult to have the flow of money restrict the circulation of certificates. Departments, localities and enterprises may very well take as a pretext stability in the flow of goods in kind to demand of the central government to reduce the base figures and increase the limits of their allocations. On the part of the leadership cadres, they can more readily find reasons for approving such demand than sanctioning loans or financial appropriations. Thus the flow of certificates is changed into regulating the flow of money. Seen from the side of management structure, certificate finance is under the charge of the planning department and the financial department can only follow its steps and make the appropriations; and in turn, the ultimate balancing will have to be attended to by the banks. Seen in this context, certificate finance and money supply are closely related and in turn the circulation plan of certificates constitutes an important content of the monetary policy.

#### VI. Broad Meaning and Narrow Meaning of the Monetary Policy

It can be seen from the above-mentioned analysis that the purchasing and marketing policy of agricultural and sideline products, wage policy, investment plans and material resources at parity prices and foreign exchange under the central government's plan for revenues and expenditures regulate to a definite extent the gross circulation volume of money. This is thus inconsistent with an independent monetary policy. These plans and policies do not cover the whole realm of the national economy and their effective nature is not always complete (some soft and some hard). Hence they cannot completely determine the gross circulation volume of money. Thus, we can employ two concepts to explain the relevant problems, that is, a monetary policy in the broad sense and a monetary policy in the narrow sense.

A monetary policy in the narrow sense (not a policy related to narrow money) refers, under the precondition of the above-mentioned various kinds of plans and policies having been determined and put into operation to the minimum degree, to a policy whereby the central bank can determine the policy of money supply; a monetary policy in the broad sense refers to the policy related to the gross volume of money supply and its contents include the various relevant plans and policies plus the monetary policy in the narrow sense. For example, the general level of fixed normal basic wages generally provides the lower limit for the enterprise's loans for circulating funds and if the loans for circulating funds do not reach this limit then the enterprises and finance cannot be maintained and there is no way to balance the national economy. But above this lower limit, the loans for circulating funds can be more or less.

If we examine the various kinds of loans, the independent character of the banks is still very great, though seen as a whole this sort of an independent character must be subjected to a discount. For example, the cotton purchase policy is a stringent one and under definite conditions may lead to large amounts of loan for purchases; in comparison, the banks' attitude toward loans for the textile industry has a relatively greater flexibility. Yet, if the Commerce Department has purchased a large quantity of cotton then the loans to the textile industry must be increased. Generally speaking, there is no clearcut actual demarcation line between a monetary policy in the broad sense and one in the narrow sense. In this article, we make a differentiation between the two, and the main purpose is to help logically explain the relationship between plans/policies and money supply.

Conversely, the point should be fairly clear that an independent monetary policy should take substantially full market regulation as the precondition. In reality, those countries that can enforce independent monetary policies are countries of the market economy. Even in countries which have not carried out planned economy, there is no wholly independent monetary economy if they extensively take part in and manage the economy. Speaking from our current economic conditions, we should take into consideration the basic precondition that the monetary policy cannot be separated from the double-tier structure of the combination of planned management and market regulation. Concretely speaking, the following several problems should be given due attention:

First, formation of an independent monetary policy is in harmony with the great direction of development of the commodity economy and should be one of the targets in the reform of the economic structure. However, before the straight-tening out of the basic structure (wages, prices, commodity prices and so forth), we cannot imagine artificially making the monetary policy independent. It may be said that independence of the monetary policy is the macroeconomic sign of the basic completion of the reform of the economic structure. As for the existing series of plans and policies, be they themselves suitable or not, they are all in liaison with certain practical problems which urgently need solution. For example, regarding such problems as easing the contradictions in the distribution of income, rectifying the slanting to one side of the investment structure, arousing the enthusiasm of all sides, and so forth, their solution through the demands of fixed planned management and policies emerging from the top echelons necessitates the coordination of a financial policy and a monetary policy.

Second, strongly emphasizing that under the double-tier structure there cannot be a fully independent monetary policy does not imply that the double-tier structure must lead to currency inflation. The inflation in wages in 1984, the reform of the salaries and wages of enterprises in 1985, the excessive purchases of agricultural and sideline products from 1983 to 1984, the policy of over



reduction of taxes and ceding of profits (particularly certain special policies), and so forth, have been the major causes for the currency inflation in these several years, all of which belonged to the realm of the inadequacy or errors of policies. Although the double-tier system could easily lead to such policies, this cannot be said to be inevitable.

Moreover, stressing that under the double-tier system there is no independent monetary policy also does not imply that currency inflation under the double-tier system is beneficial to the easing of certain basic contradictions. At the initial stage of currency inflation, certain contradictions can be temporarily concealed but following the continuance of the currency inflation, the covered-up contradictions will emerge in an even more strident form. This is to say that under a double-tier structure which is devoid of a monetary policy we can, and should, adopt firm measures to stop currency inflation.

Third, in determining the monetary policy under the current structure, particularly the adoption of a tightening monetary policy in an already existing situation of currency inflation, first of all it is necessary to place the stress on a fixed and coordinated monetary policy in the broad sense. This will demand skillful handling of the various relations on the side of income distribution and straightening out a series of structural contradictions. Contrarily, if the monetary policy in the broad sense is in itself not coordinated, such as tightening credits and loans simultaneously with raising the wage level, then this may force the national economy into a situation of extreme incoordination. Considered in this way, tightening the gross demand is not the sole concern of the Central Bank but requires all the various sides to adopt a tightening policy. Besides, such tightening is not taking the form of pro rata slashing of the various sides concerned but must be built on a basis of basically straightening out certain important relations.

It should be specially emphasized that tightening the general demand does not imply, as in the case of countries of the market economy, tightly closing the "main tap or source" of money supply. If it is said that under the double-tier system there is no independent monetary policy, it means that there is no such "main tap." If a series of important affairs should be left on one side, and only let the central bank tighten money supply, then there is the possibility of getting into the cycle of the alternately tightening and alternately inflating. On this score, intensive experiences can be learned from many developing countries. In certain countries in Latin America, the government extensively intervened in the economy, accumulated a series of contradictions, and led to currency inflation. Certain of the governments did adopt policies violently tightening the supply of money. But the policy of simply tightening money supply without paying any regard to the basic contradictions can hardly be sustained. In some cases, this may lead to the surfacing of various serious problems. Under such conditions, a violent tightening can only accomplish the

result of the appearance of an even more violent inflation. It is extremely necessary to emphasize tightening the general demand as a counter-measure against currency inflation. But it is unrealistic to imagine that the simple shutting off of the "main tap" of money supply could get around a series of basic contradictions and could call a halt to currency inflation. In fact, it might lead to serious errors. The existing condition in our country strongly resembles the conditions in the initial stage of inflation in the developing countries with a high degree of currency inflation. This implies that we can possibly fall into the miry pit of a high degree of currency inflation. Facing such a situation, we should start from the situation as a whole, push an actively workable long-term retrenchment policy, and avoid falling into the malicious cycle of the alternation of tightening and inflation.

Fourth, in the government departments, particularly in planning, finance and the Central Bank, the demarcation of functions should fit into the basic and special features of the double-tier system. In the national economy, the plan has the two portions of one inside the plan and one outside the plan and this is the basic pattern at the moment. Concrete plans such as the state investment plan, the plan covering material resources at parity prices and the receipt and spending of foreign exchange, the plan (policy) of purchases of agricultural and sideline products, wages plan (policy) and so forth, viewed relatively from the whole-sale balancing of the national economy have become in certain respects minor plans. Financial policy and currency on the one hand must coordinate with, and ensure, the realization of the minor plans, and at the same time must watch the whole situation of the national economy. To fit into such a situation, there should be an organization endowed with a super and concrete plan to effect coordination between the currency policy, financial policy and a series of concrete plans (policies). Moreover, the policy and plan determined by this organ should gradually be converted into taking the monetary volume as the main target and leaving out control of goods in kind, thus avoiding the formation of a plan management structure which is of an even larger scale. (Written in Apr 1988)

#### Footnote

1. The national economic plan (briefly called the plan) mentioned here and below does not include the money supply plan.

#### Commentary on Faster Enterprise Reform 40060009 Beijing JINGJI RIBAO 9 Sep 88 p 1

[Commentary: "Speed Up Reform of Enterprise Mechanisms"]

[Text] In recent years, because of expanded enterprise autonomy and the implementation of the contract management responsibility system, enterprise vitality has

increased. But we should also realize that a majority of enterprises have not escaped administrative intervention, and egalitarianism and "the same big pot" have not been completely eliminated. Most enterprises are still not responsible for their own profits and losses, nor have the superior displaced the inferior operations. Economic performance remains below par. Instead of absorbing the higher cost of raw materials, enterprises pass on the burden to the state or the consumer. Many unprofitable enterprises are still around, and the government is spending billions and even running up deficits to keep them alive. As we proceed to the thorough reform stage, improving enterprise performance, speeding up the reform process, and striving for substantive progress in changing enterprise management mechanisms will be crucial in determining directly the pace of reform. This warrants special attention from all quarters.

To speed up the reform of enterprise mechanisms, first we must truly separate government and enterprises. At present, the failure to separate government and enterprises, and government interference in enterprises, especially by administrative-type companies which are both government and business in nature, are still the main obstacles to enterprise reform. The one lesson we learn from the experience of township enterprises is that enterprises must be freed of government intervention. To say that we should let the state regulate the market and the market guide enterprises means that, except for formulating laws and regulations and for perfecting and managing the market, government involvement in enterprises should be limited to requiring their compliance with the law, their payment of taxes according to regulations, and their honoring their responsibility contracts. Otherwise, enterprises should be left alone. In the future, in tandem with revamping the functions of government departments, we must abolish administrative-type companies. Enterprises should turn to the market and take charge of their own fate. They should have autonomy and be responsible for their own profits and losses.

To speed reform of enterprise mechanisms, we must face one difficult problem, that is, we must be serious about getting rid of failing enterprises. Today, the more profitable the enterprise, the heavier the burden, and enterprises which are doing poorly are better off. The result of protecting and taking care of backward enterprises not only means extra burden for the progressive enterprises, it also dampens greatly the enthusiasm of the progressive enterprises. Being responsible for profits and losses are hollow words. Eliminating unprofitable enterprises may be very difficult, but it is unavoidable, and we really cannot afford to drag on any further. In the near future, we must diligently create and perfect conditions to gradually get rid of all the money-losers through mergers or bankruptcy procedures.

To speed up enterprise reform, we must also improve the makeup of the work force, further reform the allocation system, and improve management. In view of China's

current level of productivity, we must change the traditional idea and method of full employment and low productivity. Instead of job security, there should be risks. We must realize that if we fail to retain only the best workers in the production frontline and eliminate the surplus workers, we will never be able to strengthen labor discipline and implement stringent management. To make employment competitive, we must improve the labor composition, and at the same time, we must broadly promote and perfect the method of linking enterprise wages to changes in its economic productivity, so that an increase in workers' wages is truly based on improved labor productivity and better economic performance.

Furthermore, allowing large and mid-sized enterprises to issue stocks, setting up stock enterprises on a trial basis, and auctioning off some small state-run enterprises will facilitate fund accumulation, improve enterprise structure, and optimize resource allocation. This is one way to truly integrate assets, enterprises, and individual gains, and thereby, mobilize enthusiasm in all quarters and improve economic performance. We should boldly and systematically explore and promote this method.

Reform of enterprise mechanisms is the complement, perfection, deepening, and development of the contracted management responsibility system. At the same time, this reform is closely linked to the reform of the entire system of economic mechanisms. Expediting this reform will turn enterprises into bona fide autonomous commodity producers and managers responsible for their own profit and losses, and strengthen enterprise ability to endure price reform. Gradually the new economic mechanisms which lets the state regulate the market and the market guide enterprises can be established.

## FINANCE, BANKING

### Determining Appropriate Tax Breaks To Attract Foreign Investment

40060020b Beijing JINGJI RIBAO in Chinese  
26 Aug 88 p 3

[Article by Nie Haiying 5119 3189 7751 and Yang Aique 2799 1948 5028: "Determining Appropriate Tax Breaks To Attract Foreign Investment"]

[Text] Since the end of 1986, tax breaks used by various provinces and cities to attract foreign business investment have grown increasingly favorable. In 1987, direct foreign business investment in China did not increase to any great degree. This situation is worth taking note of.

Beijing Municipality has stipulated: product-export enterprises and advanced technology enterprises can reduce local income taxes and income tax on foreign

business profits. Other foreign-funded enterprises with annual earnings under 1 million renminbi and with a profit rate on sales (business) under 30 percent can avoid paying local income tax.

Shanghai Municipality has stipulated that product-export enterprises and advanced technology enterprises which enjoy business income tax exemption status under state regulations shall at the same time be exempt from paying local income tax; after the tax-free status above expires, income tax shall successively be exempted in whole and by half for 3 years respectively.

Jiangsu Province has stipulated that product-export enterprises and advanced technology enterprises which enjoy business income tax exemption status under state regulations shall at the same time be exempt from paying local income tax. After the tax-free status above expires, income tax shall successively be exempted in whole and by half for 3 years respectively. After the period expires where product-export enterprises enjoy reduced business income taxes under state regulations, the enterprises whose exports in that year are valued at over 50 percent of the enterprise production value are exempt from local income tax.

After the State Council promulgated its preferential measures to apply to foreign business investment, various other provinces and cities followed by promulgating similar measures of further preferentiality.

The tax breaks set up by various areas to attract foreign investment have not met with the anticipated results. In 1987 Beijing Municipality attracted \$620 million in foreign investment, Shanghai Municipality attracted \$330 million and Jiangsu attracted \$76 million; this represents minimal growth overall from the levels of 1986. Nationally, foreign business investment agreements in 1987 increased 24 percent over 1986, and this is nowhere near the best records posted in the past.

We can see from an analytic comparison of tax breaks and increase in foreign investment that tax breaks are not a completely necessary condition for attracting foreign investment. Tax breaks are only effective under certain conditions and within a certain scope. Improving the overall investment environment and creating a pattern for international capital flow can effectively attract foreign investment.

"We are highly skeptical of such stimulatory measures as tax exempt periods. Numerous research reports strongly indicate that these incentives have no effect on investors. Governments that implement these measures are in reality giving up income unnecessarily." This is the view of William Laili, Vice-President of the World Bank's International Finance Corporation, given at the Asian Investors Conference held in Manila at the beginning of 1988. This view was arrived at after summing up his international experiences and we can learn from it.

As for our current situation, there have been negative effects from the dismal performance of tax break measures. 1) Although tax measures ought to have a certain diversity, the degree of discrepancy in tax breaks between various regions, and between regions and the state has been excessive. Looking at the nation as a whole, there has been an excessive proliferation of administrative levels but inadequate enforcement. 2) Various regions have their own limits of authority on tax examination and approval, and site use fees. All kinds of preferential supplementary regulations have come out, which has increased the difficulties of macroeconomic control over regulations on foreigners and has hurt the interests of the nation as a whole.

Developed nations tax foreigners at a rate of over 50 percent, and most developing nations tax at between 25 and 40 percent. China's preferential tax rates and time limits are second to none. From now on, the focal point of our tax breaks should gradually be placed on preferential industries, and we should give special preferences to strategic industries that will help improve our industrial structure. The majority of provinces and cities in China limit tax breaks to tax rates and tax exemption periods. This situation urgently needs improvement.

**Qiu Qing Urges Support for Gold Production**  
40060028 Beijing ZHONGGUO JINRONG [CHINA  
FINANCE] in Chinese No 9, 4 Sep 88 pp 19-20

[Article by Qiu Qing 6726 2532: "Support Gold Production. Strengthen Gold Management." Abstract of a speech delivered by Qiu Qing, vice-president of the People's Bank of China, at a working conference on supporting gold production and strengthening management.]

[Text] In the first 6 months of 1988, China's industrial production continued its strong growth momentum, and economic performance improved. The GVIO in the first 6 months of this year increased 17.2 percent over the same period last year. This is the second highest rate of increase in the last 10 years. Budgeted tax revenues generated by state-run industrial enterprises from January to May were 39.3 percent more than the same period in 1987. On top of last year's 17.6 percent growth, gross retail sales of merchandise increased another 23.8 percent. Foreign trade has expanded, state revenues substantially increased, and rural production improved. Although natural calamities in some areas earlier this year had a definite impact on China's agricultural production, on the whole, the situation around the country is good.

Of course, as we analyze the situation and affirm our accomplishments, we must also recognize the inevitable problems we face during economic development. Our present problem lies mainly in the excess scale of capital construction and the accelerated increase in consumption funds. In addition, there are flaws in the structure of production development, and results are not ideal. On

the whole, the supply and demand gap is too wide. Price increases and energy, transportation, and raw material shortages in the last two years reflect a tight supply of funds. We should focus on this situation and act diligently in the spirit of this year's national branch bank presidents conference and uphold the guiding principle of "control the gross volume, adjust the structure, support the superior and restrain the inferior, and improve performance." This year's fund supply will focus on supporting the development of agricultural production; the development of raw materials, energy, electric power, transportation, and other basic industries; the production and export of highly marketable consumer goods to earn foreign exchange; and the development of gold production to raise the effective use of funds. By developing various ways to save, bank deposits will increase and more currency can be withdrawn from circulation. In short, we want to control the money supply and stabilize finances, but we also want to create the proper conditions for reform and production development. Below, I will focus on the topic of supporting gold production and improving gold management.

Managing gold and silver is the duty of the People's Bank. Gold production plays an important role in the country's economy. Developing gold production will have a major effect on increasing the country's foreign exchange income and the gold reserve. It will improve China's economic status in the world and promote economic development and help the people in the gold producing areas escape poverty and become rich. Leaders in the Party Central Committee and the State Council are very concerned and have attached great importance to the production of gold and have urged prompt increase in output. The state's gold management organs and gold production management departments at all levels are working closely with us and supporting us, and they are the reliable guarantor of our work to support gold production and manage gold and silver. All levels of the People's Bank should focus their efforts on the following tasks:

1) In supporting gold production, we should focus on raising economic productivity and proper use of special gold and silver loans.

Last year was the first time the People's Bank took over management of special gold and silver loans. The original plan was to extend special loans to support 191 projects, but we ended up funding 240 projects for the year. At the same time, we have also extended some interim revolving loans and have basically guaranteed reasonable funding for gold production. The departments in charge of initiating and planning this operation have studied the systems and methods of extending loans and have gathered related knowledge, and by continuous practice, they have accumulated some management experience. Guided by the gist of the head office's documents, and adjusting for local conditions, branch banks in Henan and Heilongjiang have formulated specific methods and detailed rules and regulations on

special gold and silver loans. Many branch banks have gathered experience on how to examine and evaluate loan projects. Many banks have augmented management, examination, and supervision of the supply of funds. They are offering better service and are helping gold enterprises raise funds and are giving full play to the role of the central bank. Most banks have also started to compile or amplify existing economic records on special gold and silver loans to make loan management more scientific.

This year, banks should follow the guiding principle for the country's financial work to manage and use special gold and silver loans. This year, in its effort to continue to control the scale of fixed asset investments, the state has almost tripled last year's special gold loans. In addition, we have set up current fund loans to help gold producing enterprises purchase raw and processed materials. Gold and silver loans can be extended as needed; as along as gold can be found, fund shortages can be worked out.

This year's total loan volume is substantial, and the task is more arduous than last year's. We hope that banks will focus on economic benefits and extend loans in a timely fashion and put the funds to optimal use. In making loan decisions, we must uphold the principle of "dealing with each case on its own merits and supporting only the best." Enterprise loan applications must be carefully examined and evaluated. Banks should work closely with gold production management departments to select projects precisely and properly, concentrate on key projects and put the funds to the most beneficial use. After loans have been extended, we must keep track of how they are being used and recover all loans. We must uphold the system of reporting statistics, constantly sum up experiences, and increase the use of funds.

2) We must improve service and properly procure and manage gold. In recent years, many banks have overcome such difficulties as personnel shortages, poor facilities, and poor working conditions, and have set up more procurement points, increased acquisition capability, and have done very well with their procurements. Some banks have set up classes to teach gold and silver inspection and appraisal techniques and are offering on-the-job training to raise the quality of work of technicians responsible for checking and accepting gold and silver. They have adopted new ideology and work style. Some have set up fixed procurement points, mobile procurement units, purchase the entire stock, or make periodic or nonperiodic purchases. Some banks have extended office hours and make purchases whenever gold is delivered. They also hold the sellers' gold for safekeeping free of charge or set up cash deposit accounts for them. A few banks have revamped examination and acceptance methods and have integrated sight appraisal with instrumental and chemical tests to explore a more scientific way of examining and accepting precious metals and to determine the quality more accurately. In addition, in concert with other relevant departments,

they have consolidated some gold-mining areas, and production in mining districts clearly have become more orderly. Gansu, Shaanxi, Henan, Hebei, Inner Mongolia, Sichuan, Shandong, and other branch banks have all surpassed the planned procurement target. They have worked hard for China's gold production and have accomplished much.

At present, as gold production increases, the gold procurement task becomes even more arduous. Banks are faced with personnel, transportation, examination, acceptance and other difficulties. To improve service and support production, we must overcome these difficulties and adopt different ways and means to do a better job of acquisition. Instead of sitting around waiting for the gold to be delivered, we must actively get out of the office and go to the countryside to make purchases. In the main gold producing counties, we should set up a network to increase acquisition capability, and as much as possible, purchase all the gold mined by the masses. The People's Bank should regard this as an important part of gold management. The country has spent a lot of energy on developing gold production. If we fail to purchase the gold which has already been mined, we will have failed. This year's gold procurement plan sent down by the head office is non-negotiable. Banks must reform procurement and management methods and set up a system of rewards and penalties with emphasis on rewards. Banks that do an exceptional job of procurement should be rewarded, and those that do a poor job should reduce proportionally their service charges. This year, we must strive to exceed the gold procurement task assigned by leaders of the State Council.

3) Crack down on illegal procurement, profiteering, and gold smuggling. Under the local party and government leadership, the People's Bank at all levels must work closely with other departments and adopt effective measures to handle this task properly. First, they must disseminate laws and regulations on gold and silver management in gold producing regions, so that miners know and understand the law and consciously protect the country's interest. Second, individual mining operations must be closely supervised and individuals should be prohibited from digging for gold recklessly or setting up small operations to refine gold on their own. We must guide gold miners. The People's Bank at all levels must work with the relevant managing departments to adopt effective measures to guide individual gold miners toward the joint operations, county operations, or township operations. This is an effective way to block gold smuggling. This year, to reinforce the crackdown on gold smuggling and to muster enthusiasm for dealing with gold smuggling cases, the People's Bank has increased the reimbursement for expenses incurred in anti-smuggling operations and cases from 200 yuan to 300 yuan for each liang (of gold.) No bank or gold dealer may handle the testing of gold purity for the masses. With the approval of the Jilin provincial security office, the provincial branch bank has issued I.D. cards for its anti-smuggling personnel. The Gansu branch bank has issued

"official cards" and "undercover cards" for their procurers. These measures will help to crack down on gold smuggling, illegal purchases, and profiteering. These experiences are worth summing up.

In short, the People's Bank should regard supporting gold production, increasing procurement, and managing gold as their important duty. To do a better job, the head office will establish a gold and silver managing department soon. Gold and silver management has potential. We should improve the quality of work of cadres at all levels, study gold and silver management and international gold news and trends. As gold production increases, and the economy develops, our gold industry should turn to the world. We want to become an important member of the international gold market in the near future.

### **JINGJI RIBAO Reports on Shanghai Stock Market**

40060051 Beijing JINGJI RIBAO in Chinese  
6 Sep 88 p 2

[Article by Lu Jinong 7120 4949 6593: "Shanghai Stock Market Does Brisk Business"]

[Text] The stock market is an indispensable component of the financial market. Shanghai's stock market, the largest in old China, disappeared as new China was born. In late 1984, a company in Shanghai issued the first share for public sale, marking the reappearance of the Chinese stock market after a hiatus lasting more than 30 years. In late September 1986, Jingan Securities Business Office became the first to buy and sell stocks for clients, thereby creating the rudiments of and paving the way for a stock market. This was followed by a succession of stock and bond issues. In late April this year, the trading of treasury bonds began in the municipality, injecting a new dose of life into the stock market. Shanghai's stock market has taken off.

Securities of diverse types are being issued in Shanghai today on an ever-increasing scale. Apart from stocks and bonds, there has appeared a novel fund-raising instrument—enterprise short-term bonds—an innovation in China whose purpose is to raise circulating funds for enterprises. So far over 1,600 enterprises in Shanghai have issued stocks, bonds, and short-term bonds, and the total volume of capital raised has exceeded 2 billion yuan, with the total volume of stocks issued topping 1 billion yuan. Eight enterprises have issued for public sale stocks valued at more than 800 million yuan, enterprise stocks worth over 900 million yuan, and short-term bonds worth more than 200 million yuan. A total of 16 types of securities including treasury bonds have been approved for trading and circulation on the Shanghai stock market.

As assorted securities appeared in large quantities, institutions that deal with the issue and circulation of securities have also sprung up. At present, apart from eight

over-the-counter offices that buy and sell securities, two specialized securities companies were set up recently, the Shanghai International Securities Company and Shanghai Shenyin Securities Company. Their establishment signals the beginning of a new stage in the long-term fund market and will help promote the institutionalization, standardization, and internationalization of the issue and circulation of securities.

Because of the increase in the number of stocks and bonds issued and the sale of treasury bonds, the volume of transactions at the Shanghai stock market has risen substantially, in contrast to the early days when trading was very quiet. Trading in treasury bonds has been particularly active. In less than 4 months from 21 April to mid-August, the total volume of transactions reached 120 million yuan. At the Jingan Securities Business Office, Shanghai's largest stock-trading point, the daily volume of transactions in treasury bonds averages 200,000 yuan, the highest being 1 million yuan. Trading in stocks and bonds has also grown significantly. From January through July this year, trading in stocks and bonds totalled 8 million yuan, exceeding the figure for all of 1987.

But many problems remain in the development of Shanghai's stock market. First of all, there is a serious mismatch between the scale of the circulation market for securities and that of the issue market. The number of securities types that can be traded is far too small. For instance, the value of stocks issued has reached 1 billion yuan while the value of stocks actually on the market is less than 20 million yuan, 2 percent of the total value of stocks issued. Supply consistently trails demand on the Shanghai stock market. Second, the securities issue system is imperfect. The examination and approval procedures are overelaborate and the necessary standardization is lacking. Some enterprises are in a hurry to raise funds to finance expanded production, but have not been able to do so. Three Shanghai companies that manufacture lighting equipment considered merging themselves into a joint-stock company, but the approval process entails securing permission from dozens of agencies. Almost 2 years after the idea of forming a joint-stock company was first floated, it has not become a reality. In addition, people have not developed an investor mentality as far as stocks and bonds are concerned. To them, stocks and bonds are just some place to put their savings. Since the rates of interest on stocks and bonds are far higher than the interest rate on bank savings deposits, every single issue of securities sends people flocking to securities business offices to line up to purchase them. Few people who own shares are willing to part with them. The resultant low volume of business hurts the earnings of intermediate organizations in the securities business, which militates against the development of fund-raising concerns in the circulation market and the flourishing of the stock market.

Some financial experts in Shanghai point out that there is a rising clamor among enterprises for a share-holding system. Practice proves that a share-holding system offers enterprises many advantages. It transforms large

amounts of consumption funds into long-term production funds, thereby overcoming the problem of fund shortage which has slowed down production, and helps reduce pressure on the consumption market and stabilize commodity prices. It is a trend of the times for enterprises to adopt a share-holding system, a reform in the economic system that would make the demand for financial reform even more urgent. To introduce a share-holding system, finance departments must first work out examination standards, improve the examination system, and simplify examination and approval procedures, modeling them on those for the approval of Sino-foreign joint ventures. There should be a specialized management agency to give one-stop approval to all qualified applications. To improve the stock circulation market, a stock exchange should be set up without delay to provide a central venue where buyers and sellers across the nation can trade in securities.

In addition, Shanghai financial experts propose that international practices be adopted to gradually institutionalize, standardize, and internationalize the issue and circulation of securities.

## INDUSTRY

### JINGJI YANJIU on State Enterprises

HK3009153188 Beijing JINGJI YANJIU in Chinese  
No 8, 20 Aug 88 pp 54-59

[Article by Zhao Guoquan (6392 0948 2938), from the Guizhou Provincial Economic Committee Office for Economic Studies, and Zhou Xiangang (0719 3759 0474), of the Structural Reform Committee General Department under the Guizhou Provincial Government, dated June 1988. Jiang Liming (5592 7812 2494) and Dong Jigang (5516 4949 1511) also joined the study: "Vitalizing State-owned Enterprises in Less Developed Areas As Seen from the Case of Guizhou Province"]

[Text]

#### I. Obstructive Factors and Environment Differentials in the Development of State-owned Enterprises in Guizhou

The state-owned enterprises in Guizhou were developed mainly in the late 1950's and during the period of "three-front construction." In particular, enterprises in Guizhou were really molded into their basic pattern during the period of "great three fronts" between the mid-1960's and mid-1970's. According to a general survey on industries in 1985: The number of state-owned enterprises in Guizhou totaled 1,546, or 29.3 percent of the province's total number of industrial enterprises practicing independent accounting; the number of staff and workers was 630,500, or 79.8 percent of the province's total number of staff and workers hired by industrial enterprises practicing independent accounting; the amount of fixed assets owned by them was 11,902 million yuan or 95.1 percent of the province's total

amount of fixed assets; their realized output value was 6,964 million yuan or 83.4 percent of the province's gross industrial output value; and their realized profits and tax totaled 1,698 million yuan, or 93 percent of the profit and tax realized by the province's industry. State-owned enterprises were the main force in the economic development of Guizhou.

Following the 3d Plenary Session of the 11th CPC Central Committee, Guizhou took the lead in introducing the contract system to urban areas and to state-owned enterprises. By repeatedly implementing plans on reform, opening up, and enlivening, such as streamlining the structure, decentralizing the decision-making power, substituting profit delivery by taxes in two stages, implementing the director responsibility system, and running business on a contract basis, Guizhou's state-owned enterprises, like other enterprises across China, have gained benefits from reform. Compared to 1978, its output value in 1987 was increased by 1.4 times, its profits and tax delivery by 3 times, its fixed assets by 96.2 percent, and its labor productivity improved by 95.2 percent. However, judging by the yardstick of enterprises which were really enlivened, a sample survey showed that enterprises capable of self-development accounted for less than 10 percent, and an absolute majority of them were in a dilemma in which they neither became enlivened nor "died."

A statistical analysis among the budgetary enterprises showed that the major problems in development of state-owned enterprises in Guizhou were manifested as: 1) High production costs and poor competitiveness. Their consolidated index of major fuel consumption was 15 percent higher than the national level and 34 percent higher than Shanghai; and their unit cost of fixed price products was 13 percent higher than the national level and 29 percent higher than Shanghai. Facing such hefty production costs enterprises often maintained their competitiveness at the expense of their profits, therefore the profits so manifested and derived from the fixed price products per 100 yuan output value was 54.4 percent below the average level in Shanghai. 2) Little profit retained by enterprises and insufficient development funds. In 1987, the per capita profits retained by state-owned budgetary enterprises in Guizhou was 593 yuan or just 39.3 percent, 70.4 percent and 42.8 percent of the per capita profits retained in 1985 by state-owned enterprises in Beijing, Tianjin and Shanghai respectively. After the deduction of various expenses a very small amount was left to be used as funds for development and production. 3) Insufficient reserve strength for development due to an eastward shift in development focus by the state. During the Sixth 5-Year Plan the per capita investment in the fixed assets of large and medium-sized enterprises totaled 8,550 yuan or 52.6 percent of the per capita investment in large and medium-sized enterprises in Shanghai; whereas during the Seventh 5-year Plan, Guizhou's per capita investment in state-owned enterprises was only one-third of the state's figure, which showed a wider gap between the province and eastern

China and many enterprises faced difficulties even in maintaining their simple reproduction. 4) Poor management skills and insufficient force for development. Because of prolonged exposure to the influence of product economy thinking, quite a number of enterprises reacted slowly to their business environment when engaging in commodity production. They put undue stress on their difficulties, indulged in a dependent mentality, and were scared to and not good at exercising the decision-making power entrusted by the state. Moreover, due to overstaffing and poor business management the enterprises lacked the necessary internal driving force for development.

The state-owned enterprises in Guizhou were marked by the following characteristics: 1) Heavy structure. The output value of heavy industry accounted for 69.9 percent which was much higher than the 33 percent in Guangdong and 46 percent in Jiangsu. 2) Development by transplantation. Most of the state-owned enterprises in Guizhou were not native products of the local socio-economic and cultural development. Instead, they were brought about by a special political background and economic system, which had been established in the wake of threats of war in the 1960's. They thus lacked the nourishment for self-development and were strongly marked by artificial transplantation. There was no market at the enterprises' locations, and neither was transportation convenient nor information easily accessible. Therefore, there developed a phenomenon in which on this side of the barrier highly sophisticated technology was adopted, whereas primitive farming techniques were still used on the other side. Like oases in a desert, enterprises became plots of "fertile land" surrounded by bad land. 3) Sparse overall distribution. Of the province's 175 large and medium-sized enterprises, some 60 percent were sparsely distributed in valleys far away from the urban areas. The 34 enterprises under the Guizhou provincial administration of the original Ministry of Aviation Industry were all located in the Anshun-Bijie-Guiyang area which measured several tens of thousands of square kilometers. 4) Corresponding to and as a result of the above characteristics, the extent of mechanical coupling in economic operations and systems was low; and the social environment for enterprises, the cultural mentality of the masses, the economic actions of the local government, and the necessary conditions in enterprises for their operations were mismatched, thereby forming a situation in which enterprises engaged in a closed-type production.

In the wake of changes in China's economic development strategy and the in-depth development of reforms, history has relentlessly, and seemingly correspondingly, pushed enterprises in western China together with those in eastern China toward the front of commodity production and jointly accepting challenges brought by modern economic relations and systems. Under the unified policies formulated by the state, the distinct features of enterprises in less developed areas will, in the course of development, inevitably face insurmountable difficulties.



First, difficulties about pricing. The number of enterprises in Guizhou undertaking mining and raw materials industries accounted for 32.7 percent of the province's total number of enterprises practicing independent accounting, or 62.9 percent of enterprises undertaking heavy industry. However, the original value of fixed assets owned by them accounted for 56.2 percent of the province's total owned by industrial enterprises, or 60.3 percent of such assets value owned by heavy industry. Thus they owned the largest amount of integrated composition of funds. However, the industrial output value provided by these two types of enterprises accounted for only 33.8 percent of the province's figure. The profits and tax delivered was less than 30 percent. Their rate of returns on capital and investment recoupment ratio were below the province's average level. One of the reasons for this was the irrational pricing of raw materials. Though the state has recently sharply raised the price of fuel, those benefits brought about by such a rise in fuel price and enjoyed by enterprises, gradually subsided in the wake of corresponding increases in the price of processed products. Moreover, a major part of fuel consumed by the state-owned enterprises in Guizhou was subject to mandatory state plans. For instance, the percentages were 96 for aluminum ingot, 87 for pig iron, 75 for rolled steel, 80 for ferroalloy, 95 for ji jiao [2623 3542], and 90 for cement. The advantages brought to these enterprises by the increase in prices were not apparent, but such increases constantly gave rise to inflation of the aggregated demand and a growth in consumption funds. It was estimated that because of the irrational pricing the amount of calculable losses of profits and tax delivered by state-owned enterprises in Guizhou on the item of raw materials alone was over 600 million yuan, which equalled more than 45 percent of the financial subsidies allocated to the province by the state.

Second, geographical difficulties. Except for some located in large cities such as Guiyang and Zunyi, most of the state-owned enterprises in Guizhou were located in remote mountainous areas, whose the rugged and rough environment prevented them from having easy access. This sharply increased transportation costs and greatly limited the extent of opening up by these enterprises. Furthermore, geographical barriers blocked the circulation of information throughout the whole society, and between enterprises and individuals. As a flexible combination of production factors among enterprises was very difficult it hampered the development of basic social structures such as intellectual development, popularization of technology and production services in enterprises, and the development of cultural undertakings. The economic and social development of the whole province was adversely affected.

Third, marketing obstacles. Guizhou's particular natural environment also developed a particular market environment. 1) Market development was slow and its functions imperfect. Unlike the situation in eastern China, Guizhou had never developed any modern industry or experienced the development of commodity economy.

Moreover, its market development was very slow due to the mandatory planned economic system adopted 3 decades ago, and the geographical barrier. 2) The market in Guizhou was marked by regional features and closed and incomplete development. The strength of pulling enterprises together through market media was weak. 3) Distant location from the market. A requirement in developing the commodity economy is to have an enterprise in the vicinity of the market whenever possible, but the province's geographical barriers separated enterprises from their market and they faced difficulties in meeting market demand. According to the survey on 175 large and medium-sized enterprises in the province, in answer to the question as to why enterprises could not be easily enlivened, 75 percent of enterprises said that the main reason was that they lacked the experience of "operations." An analysis of sample enterprises showed that their "marketing cost" (hereinafter referred to as the calculable portion) of production development was usually 60 to 70 percent higher than that in eastern China.

Fourth, difficulties in social cooperation. Commodity production is the socialization of production. The development of a product is usually the result of professional cooperation among enterprises. Modern production requires a high standard of social cooperation. To a certain extent the terms of cooperation and the conditions in the cooperation environment are the key factors in successfully developing an enterprise. Compared to the cooperation terms and conditions for development in eastern China, those needed by enterprises in Guizhou were rather large in amount. Projects that could be accomplished by Beijing, Tianjin, and Shanghai at a low cost could not be achieved in the province. Both Guizhou and Shanghai diesel engine plants produced the model 4135D diesel engine. The unit cost of the engine made by the Shanghai plant was 5,054 yuan, whereas that of the Guizhou plant was 6,923 yuan, or 36.98 percent higher. The reasons for this were: First, the Guizhou plant was built in accordance with professional principles but its major source of accessory parts was in eastern China, so that the cost of cooperation was great; and second, as its related plants were located in remote areas and the supply of component parts from other places was abnormal, it maintained the needs of normal production by overstocking. This increased its production costs because the plant paid an additional annual sum amounting to some 1 million yuan in interest for overstocking. According to a survey on 100 key processing enterprises across the province, the increase in production costs of a product because of the terms of cooperation was about 10 percent compared to that of the same product made by enterprises in eastern China. Social cooperation barriers not only affect the production cost, but also the development of new products. In 1987, Guizhou's state-owned enterprises developed some 200 new products, of which 70 to 80 percent had the potential to meet the market demand. Because of the poor cooperation in producing accessory parts however,



it was difficult to manufacture these products by mass production. Many of these new products were eliminated by the market a year later because of too low sales volumes.

Fifth, difficulties concerning the social burden. It was common that the social burden undertaken by state-owned enterprises was excessively heavy. Because of the excessively low overall level of urbanization (being ranked in the last third in China), the functions of Guizhou's cities were imperfect, and their social functions and social division of labor were mixed. Moreover, many of them were located in remote valleys and thus undertook heavier social burdens. According to the data on some 100 enterprises under the three major industrial systems, the number of non-productive personnel (hereinafter referred to as workers not working on the first front) accounted for about 70 percent of total staff numbers. Among these non-productive personnel, about 40 percent were specially hired to provide social services (such as teaching staff in schools, medical personnel, child care personnel, sales persons, barbers, judges, and public security personnel); whereas less than 230 percent of personnel hired by state-owned enterprises in Shanghai and Nanjing provided social services. The cost of social burden borne by enterprises in Guizhou was over 50 percent more than that borne by enterprises in eastern China.

Sixth, difficulties concerning the social culture and psychology. The culture of Guizhou's state-owned

enterprises, mainly marked by the transplanted enterprises, and the mentality of their staff and workers, manifested by the dualist structure developed through differences in economic, social, and cultural aspects. In addition, under this structure the enterprises and families of their staff and workers were in a disharmonious, closed-door, and isolated state. If we let things develop in their own course the human and biological economic environment would be further weakened. Therefore, some far-sighted entrepreneurs warned that a poor human environment would strip the outstanding personnel of our generation of opportunities to show their abilities. If things went on like this the quality of our workers would steadily become worse.

Through comparison and analysis we can see that there is in fact environmental differences between enterprises in under-developed areas and those in developed areas. The enterprise development policy, formulated by the state according to the situation of less developed areas, was actually one of inequality and the implementation of which inevitably brought about differentials in terms of economic results and opportunities.

The differential in economic results was mainly manifested by the fact that the materials consumption by, as well as production cost and losses of, state-owned enterprises in Guizhou (except for non-constant factors due to different structures) were higher than those of the developed areas in eastern China as shown in the following table.

Comparison of Industrial Economic Results Between Guizhou Province and Several Provinces and Cities in Eastern China (1985)

Name of Province (Cities)	Labor Productivity (yuan/person)	Rate of Tax and Profit Delivery (percent)	Rate of Profit Delivery per 100 Yuan Fixed Assets (yuan)	Tax and Net Assets Value Yielded per 100 yuan Fixed Assets (yuan)	Revolving Cycle of Fixed Circulating Funds (days)	Total Losses percent)
Shanghai	24981	56.55	64.05	81.24	74.8	5.85
Jiangsu	13311	29.37	34.59	59.68	89.9	12.79
Zhejiang	12444	31.15	39.34	65.9	93.6	10.54
Shandong	13859	23.33	24.47	48.85	103.9	9.95
Guizhou	10908	11.78	14.68	27.73	144.3	13.38
National	12372	24.02	24.17	—	—	10.85

The differential in opportunities was that enterprises faced inequality when seeking development opportunities because of delays. First, the delay was shown in terms of effectiveness of the policy. Shortly after the contracted responsibility system with payment linked to output was introduced to China, Guizhou took the lead in launching widespread popularization. It was also one of China's first provinces and cities to take the lead in implementing the urban economic structural reform. However, when rural reforms brought about enormous enthusiasm for production among peasants in eastern China, and township and town enterprises grew like

mushroom, Guizhou's township and town enterprises faced difficulties in a variety of ways. When the state took a relaxed attitude toward credit Guizhou's enterprises did not make use of the opportunity to borrow and utilize money. When they knew how to borrow and utilize it the state began imposing restrictions on credit. For the developed areas, indiscriminate macroscopic control often took place in non-important places; whereas, for the less developed areas it often took place in the important ones. Second, the delay was shown in terms of investment and development. Differences in economic results inevitably caused the state to invest less

in the less developed areas, and thus the corresponding chances of development became fewer. This was shown during the Seventh 5-Year Plan when per capita investment in Guizhou was about one-third of the national level. As the chances became fewer, the opportunity cost of development undertaken by enterprises was sharply increased, which in turn developed new differences in economic results. And the situation went on endlessly in this way.

To put it in a nutshell, the difficulties encountered by the less developed areas were not caused by the enterprises themselves. Rather they were the result of indiscriminate development policies and the traditional systems. According to the analysis of several sample enterprises which were moved from Shanghai to the interior part of China, even the most outstanding enterprises from eastern China could not eradicate the above difficulties after relocation in Guizhou. For example the Guizhou diesel engine plant was moved from Shanghai during the three-front construction period, and was an affiliate of the Shanghai diesel engine plant. The production management in the two plants was quite good and they basically produced the same products. Nevertheless, they yielded two extremes of economic results. This could be likened to the business run by people in Nanjing Road, Shanghai, where the price of land was very expensive, and that by villages and towns in remote and poverty-stricken areas. No matter how clever an entrepreneur was he would get two completely different results from businesses in these two areas. The uneven socio-economic development between eastern and western China has brought about practical inequality in competition, which further develops inequality, and if we let the situation go on like this it may become the crux of our problems.

## II. Room for Enterprise Development and Analysis of Current Policy

Through the previous description of problems and difficulties encountered by state-owned enterprises in Guizhou in their development it seems that we may pose the following question: Can an enterprise develop itself without overcoming the above difficulties? The answer is affirmative. There are still some potentially favorable conditions for the development of state-owned enterprises in Guizhou. 1) Advantages in terms of qualified personnel. According to state statistics the 1984 average number of scientific and technological personnel hired by Guizhou's units owned by the whole people was higher than that of eastern China and the national level, being ranked third in China. However, while Guizhou is full of qualified personnel, the rate of specialists lying idle has reached an alarming level. For example, people specialized in the study of advanced technology were being kept busy marketing safes, spring beds, and folding chairs. 2) Advantages in terms of technical equipment. According to a general survey on industries, the per capita rate of fixed assets and equipment owned by state-owned enterprises in Guizhou was higher than that

of Shandong and Jiangsu in eastern China by 45 percent and 1.5 times respectively. The number of metal-cutting machine tools per 10,000 people in the province was also higher than that of Shandong and Jiangsu Provinces. However, the average utilization rate for equipment owned by state-owned enterprises is less than 50 percent. Thus, there is plenty of room for development. 3) Advantages in terms of groups. Though the overall distribution plan of state-owned enterprises in Guizhou is sparse, these enterprises are internally closely related. Some bases may undertake the production and development of such products as automobiles, machine tools, electronic equipment, and other equipment and instruments. Thus we can see that under the current situation even enterprises in the less developed areas have much room for development, and the key to do this rests with the adoption of suitable policies on development and reform.

To enterprises in the less developed areas China's current policies on enterprise development are actually restrictions on their development. For instance, on credit policy the requirements for interest rates and credits are the same as those in eastern China. On taxation policy, the product tax, income tax, and adjustment tax borne by enterprises in the province are the same as those for enterprises in coastal regions. On labor and wages, enterprises in the province can neither attract qualified personnel with high wages nor choose the necessary flexible employment in order to reduce their production cost, because everyone handles matters in accordance with the wage scale formulated by the Ministry of Labor and Personnel Affairs. Experience in some developed and developing countries shows that a unitary and rigid development policy does not conform to the situation in which the socio-economic development of a country is uneven.

A nationwide large-scale unified policy cannot meet the demand for development by enterprises in the less developed areas. In order to narrow the gap between eastern and western China, and to stimulate the enthusiasm of enterprises in the less developed areas, we must make our new selection.

## III. The Method of Development and Policy Selection in State-Owned Enterprises

In their future development, state-owned enterprises of the less developed areas face four kinds of selection: First, the state continues to implement its nationwide large-scale unified policy on development. Second, it adopts a tilted development policy toward the developed areas and an even development policy toward the less developed areas. Third, it executes "large-scale strategic change" in the structure of enterprises in western China that does not conform to the economic rules of commodity economy. Fourth, it adopts a "double tilted" differential policy toward eastern and western China. We hold that the former two selections will intensify the unequal competition among enterprises in eastern and western

China, so that the economic development gap will be widened. The third one, though it sounds ideal, requires an enormous investment sum and hence brings about large-scale wastage. It is estimated that we need more than 9 billion yuan of investment in order to move hundreds of state-owned enterprises out of the valleys. Such an amount equals about 70 percent of the total industrial fixed assets invested by the province over the past 37 years. The fourth one is the implementation of a "double tilted" differential policy. In the developed areas we should adopt coastal development strategy and develop outward-looking economies by means of tilted policies. In the less developed areas we should adopt specially formulated policies and readjust the economic relations between eastern and western China, thereby creating a fair competition environment between them and establishing a dynamic mechanism for the development of enterprises in western China. The strong points are: First, we may basically leave the current basic structure of enterprises intact (except for specific enterprises), thereby saving a large amount of funds for the state; second, enterprises in both eastern and western China can display their talent and get what they want; can stimulate the enthusiasm of enterprises in the two areas; can promote the mutual circulation of capital, technology, and qualified personnel, thereby promoting mutual development between the developed and less developed areas. Third, we may reduce the financial subsidies allocated by the state to the less developed areas, so that the national economy will achieve a relative balance amid an absolutely imbalanced state.

Our basic way of thinking is to readjust the environmental differences by means of policy differences, and to create for enterprises the conditions for undertaking rational competition and assuming sole responsibility for their own profits and losses.

First, investment policy. Proceeding from the rules of commodity economic development the top priority of the principle of investment should be economic results. To take this in greater detail, it should be the shift of increment labor from the collective labor of society to departments, trades, or basic facilities facing shortages in social labor. Therefore the selection of short-term economic results derived from the adoption of a gradient development strategy in eastern, central, and western parts of China is not so good as the selection of long-term economic results derived from development principles based on the "rational allocation of resources," and investment in trades facing capital shortage. The current restrictions on China's resources are more prominent because the country now faces overall shortages in energy resources and raw materials. The state should change its investment policy from the gradient pattern for the eastern, central, and western areas, develop the industrial policy in the direction of pursuing a "rational allocation of resources," and readjust investment in accordance with commodity economic principles and the law of value. At the same time we may lift restrictions on the transfer of funds in the less developed areas

on a trial basis. Through the establishment of local investment banks, urban credit cooperatives, and other financial institutes we may pool funds in a more flexible way for investment in industries that will yield better economic results. We should also allow the current state-owned enterprises to engage in, invest in, and run inter-industry business, lift various restrictions on them, and allow them to gradually expand to other profitable trades and industries, provided that they continue to undertake their current production and run the current business. They will thus, like those large Japanese commercial corporations, form genuine enterprises instead of remaining in the current state.

Second, taxation policy. We should act in the light of difficulties encountered by enterprises in the less developed areas, and practice a multi-level taxation policy. We should formulate different taxation standards in accordance with different conditions, and readjust the non-business differential revenue in the developed areas by means of taxation policy, so that enterprises in both the eastern and western areas will have a fair competition environment. Treatment for the less developed areas should be different from that for the developed ones in terms of product tax, value added tax, business tax, and income tax. The difference in economic results caused by environmental differences should be disregarded when determining tax rates.

The implementation of multi-level tax rates does not mean that the state "cuts taxes and reduces profit delivery." In essence it is an effective method for the state to provide basic support to enterprises in the less developed areas for their growth, and to promote the formation of a market mechanism.

Third, ownership policy. We should adopt a more flexible ownership policy for state-owned enterprises in the less developed areas, and promote changes in the organizational and internal structures of enterprises through changes in the form of ownership, so as to improve their development ability despite the incomplete commodity production conditions. We may consider: 1) Transferring all or part of the ownership of assets by enterprises whose commodity production environment is too poor and which are unable to move to other places in the near future. Through auctions we may transfer all or part of the assets owned by enterprises to collectives and individuals, so that the properties of these enterprises will be diversified and then their board of directors, to be formed by the state, collectives and individuals, will recruit people through open channels to run their business (the transfer of all properties is subject to the decision of their owners), while the staff and workers hired by the original enterprises can elect whether to stay or to go. The implementation of a diversified form of ownership may stimulate the enthusiasm of both asset owners and enterprise operators in running their business. This, together with the allocation through a multi-level taxation policy, may ease the pressure of rigid production costs on the enterprises and may improve

their competitiveness by changing their business actions without changing their environment. 2) Practising the dual form of ownership by the state and enterprises among other state-owned enterprises. Proceeding from the state of value, the state owns the means of production consumed by enterprises; whereas enterprises are actually the ones that hold, utilize, and dispose of the means of production. Subject to the law of the state, enterprises may undertake the circulation and transfer of assets. An investigation showed that after installation by the machine-building department in Guizhou Province, 10 percent of the equipment was left idle. The utilization rate of equipment possessed by key enterprises was also low, about 45 percent on average. The exchange and transfer of fixed assets, and the double constraint on business operators by the state and enterprises may, to a certain extent, help solve problems of insufficient development funds and boosting the internal strength mechanism in the less developed areas.

Fourth, wage policy. We should formulate policies that integrate "high-income guidance with low-wage employment," and as much as possible lift restrictions on wages. In terms of policy, we should allow and encourage a sharp increase of income and wages earned by business operators of enterprises, and the increase in income and wages of personnel who have made contributions to the development of their enterprises. At the same time we should maintain a gradual annual increase in the wages of ordinary producers, while reducing their proportion of the total wages, so as to stimulate the growth of entrepreneurs and other capable persons. We should, through an open and competitive wage policy, change people's ideology about commodity economy which was formed following a protracted closed situation. The implementation of this policy may be very rigid and painful for the time being, but reform of distribution is an inevitable step in commodity economic development, so that the sooner we take it the better it will be for the development of enterprises. It is proposed that the state may, to a certain extent, decentralize the decision-making power about wages to localities.

Fifth, the increase of economic means of readjustment for local governments. The economic difficulties about the development of Guizhou's enterprises were developed throughout the whole course of economic operation. Thus enterprises urged the government to give assistance and solutions according to the actual conditions. A difficult point was that the local government could not utilize the economic means of readjustment such as fiscal policy, currency policy, property policy, exchange rate, tax rates and interest rates. As the coordinated economic policy provides little room for maneuver, the local governments inevitably look for an alternative choice to achieve their goals such as reducing and exempting taxes related to the fiscal policy. This is one of the reasons for developing the current tide of cutting taxes and reducing profit delivery. In the final analysis the practice of cutting taxes and reducing profit delivery goes against the policies of the central authorities and

relevant departments, and it contradicts the goal of increasing financial revenue. The local government thus looks for the second alternative choice—the development of local financial industry by establishing local trust and investment companies and urban credit cooperatives. As the less developed areas depend on the subsidies allocated by the central authorities it is necessary for the local governments to have to hand more economic means in order to pave the way for developing enterprises, provided that they do not affect the overall revenue and expenditure of the central authorities. Therefore, to make the authority of local governments correspond to their liabilities may help utilize in a better way the initiative of local governments.

Sixth, policy of planned assistance. Under the present circumstances where the national industrial policy is still very unclear, the less developed areas should focus on readjusting the organizational structure of enterprises while formulating their public investment plans. In areas which obviously need development support we should strengthen the organization of enterprise groups by making "plans on a separate list," so as to enliven those transplanted enterprises with higher productivity. After forming enterprise groups by means of planning we should allow them to enter the national and world markets. We should make plans on a separate list, provide large-scale production projects to military industrial groups, and utilize capital intended for corresponding facilities to transform the current production lines so as to increase the inventory through the increase of production. This may bring vitality to the penniless military industrial enterprises in those remote valleys. Of course, making a separate list is a stopgap measure during the transitional period, and the groups will be put onto the market after they have grown strong enough.

Seventh, policies assisting pricing. Pricing plays an important role in organizing economic activities. However, the planned pricing faces such difficulties as the less developed state in raw materials and energy generation industries, and shortages in usable developed resources, in the course of changing the market pricing. Following the formation of a dual-track pricing system the production of part of the raw materials subject to market readjustment was stimulated so that there was a rise in enthusiasm. In return, the demand on raw materials further promotes the development of energy resources. Therefore the dual-pricing system for raw materials should be promoted in the market, and is an important factor for accelerating the development of enterprises in the less developed areas. Of course, a price readjustment of raw materials does not necessarily bring about a continual ideal growth in the mining and raw materials industries. We hold that the state should further readjust the raw material prices. While it is not necessary to readjust the planned prices in the near future, the prices of that portion as a result of increased production may be subject to market readjustment. In addition, we should gradually open the part subject to planned pricing to the market, while expanding the part

subject to market readjustment. However, we must check the spiral increase in prices of products made by the processing industry, so as to avoid the increase in price of the means of production exceeding the growth of labor productivity and the development speed of production. We should promptly put an end to the seriously irrational situation where the price of a product does not conform to its value. Otherwise the enthusiasm and drive to develop energy resources by enterprises in the less developed areas will not be stimulated.

## CONSTRUCTION

**Successes in Heilongjiang Building Sphere Noted**  
*SK1010034188 Harbin HEILONGJIANG JINGJIBAO in Chinese No 73, 13 Sep 88 p 1*

[Text] During the 10 years since the 3d plenary session of the 11th CPC Central Committee, the investment in fixed assets contributed by the entire society of the province totalled 69 billion yuan, far exceeding the total investment during the previous 26 years (1953-1978). Of this, the investment in capital construction made by all the people-owned departments has amounted to 34.8 billion yuan, 3.7 billion yuan more than the total during the previous 26 years. Meanwhile, 13,180 capital construction projects have been completed and put into production, of which, 39 are large or medium-sized. These projects have brought about 26.2 billion yuan worth of newly added fixed assets, thus enhancing the province's economic strength.

Investment in fixed assets has changed from the past situation of being mainly directed at all the people-owned units, with the state investment as the main source for diversifying the investment objectives and sources of funds. From 1981 to 1987, the investment made by collectively and individually owned units in the province's urban and rural areas amounted to 10.76 billion yuan, showing an average yearly increase of 69.4 percent, which far exceeded the average yearly increase speed of 19.6 percent registered by all the people-owned units. In addition, the province experienced an increased proportion of investment independently raised by departments, localities, and enterprises, and some foreign funds were also utilized.

The construction of energy and transport projects, as well as the province's superior industries, have been strengthened. Over the past 10 years, the province has strengthened the building of energy, transport, and basic industries, and investment in this regard amounted to 11.36 billion yuan. Compared to 1978, the installed capacity of newly built power generating units increased by 134 percent; the mining capacity of coal industrial departments increased by 105 percent; and the capacity for processing crude oil increased by 17.7 percent. In addition, the production capacity for cement and plate glass, which are building materials products, increased by 150 and 580 percent respectively.

Over the past few years, the province has accelerated the pace of equipment renewal and technological transformation in line with the principle of expanding reproduction with the stress on tapping potential. From 1981 to 1987, all the people-owned units in the province invested a total of 11.6 million yuan in conducting equipment renewal and technological transformation. The newly added production capacities included: 1.323 million tons of coal, 726,000 tons of processed petroleum, 132,300 tons of chemical fertilizer, 1.46 million tons of sugar, 4.34 million tons of dairy products, and 102,000 television sets.

During the 10 years, the province also readjusted the proportion between production and non-production sectors in capital construction, paid attention to paying leftover bills due, and strengthened the construction of non-productive projects that are closely related to the people's livelihood. The province built 40.494 million square meters of residences for urban workers and staff members. As a result, the per capita housing area of urban dwellers increased from 3 square meters in 1978 to 5.1 square meters in 1987; and the proportion of homeless families, over-crowded families, and inconveniently housed families dropped from 50.4 percent in 1978 to 25.4 percent in 1987. The "house building boom" in rural areas has greatly improved housing condition for peasants. By the end of 1987, the number of rooms used by each rural household increased from 2.2 in 1978 to 3.29.

## ECONOMIC ZONES

**Zhuhai Successful in Attracting Foreign Investors**  
*40060081 Beijing RENMIN RIBAO in Chinese 16 Sep 88 p 3*

[Text] The level and quality of investment in Zhuhai so far this year has surpassed that of the same period last year. The increase in investors over last year is due to Zhuhai's markedly improved "soft" and "hard" investment climate. In a negotiation meeting in Hong Kong early this year, Zhuhai signed 165 agreements with foreign merchants amounting to \$1.2 billion in capital investment. Additionally, from January to July this year Zhuhai signed 161 contracts that involved the use of foreign capital, a 53.3 percent increase over last year. Newly signed contracts exceeded \$149 million, 1.6 times the amount of the same period last year.

Zhuhai Mayor Liang Guanda recently stated that Zhuhai has not only done a good job in attracting foreign capital, but has also achieved new development trends in many areas. Some of these new development trends are as follows:

Looking at the projects for attracting foreign investment from an overall perspective, Zhuhai has begun to move in the advanced science and high technology direction, changing from the previous situation in which the majority of joint venture enterprises were the basic technology and labor intensive types.

Projects that attract foreign capital have expanded, filling Zhuhai's industrial voids in such areas as rubber processing, computer parts, and petrochemical engineering.

Capital needed for projects has been funded by various financial institutions. Numerous banks with foreign capital have indicated a willingness to provide loans to the majority of projects. The areas from which to attract foreign investment have been enlarged, expanding to the United States, Canada, Japan, Australia, and the European Common Market countries.

The number of projects which are very successful and have a high investment level are on the increase. For example, investment in items such as the PTA production line and VCRs have involved investments valued at several hundred million U.S. dollars.

## POPULATION

### Journal Views Population, Economy

HK3009134688 Beijing JINGJI YANJIU in Chinese  
No 8, 20 Aug 88 pp 66-71

[Article by Tian Xueyuan (3944 7185 0626) of the Institute of Population, the Academy of Social Sciences of China, revised in May 1988: "The Factor of Population in the Economic Development Strategy for the Coastal Areas"]

[Text] In the economic development of the coastal areas, apart from a better infrastructure, convenient transportation, and greater strength in scientific and technological development, superiority in population is also an asset. It is an important guarantee to realize the economic development strategy in the coastal areas.

### Size of Population

The population factor favorable for the realization of the economic development strategy in the coastal areas lies first in the large size of the population there, which ensures rich manpower resources. Moreover, the proportion of production-age people in the population will be on the rise for the next two or three decades, and the societal burden will be relatively light. The population of continental China in 1986 is 1.05721 billion, of which 0.43526 billion, or 41.17 percent, is found in the 11 provinces, autonomous regions, and municipalities directly under the central government along the coastline, whose area accounts for only 13.5 percent of the nation's total area. The coastal areas are more densely populated than elsewhere in China. Also, in the process of steady population decline in China since the mid 1970s, the decline in the coastal areas has been more impressive and the time span has been longer. Therefore a certain disparity has emerged in the age structure between the coastal population and the inland population. At present, those aged 0-14 make up 28.68 percent

of the total population of China, the corresponding figure for the coastal areas is 26.10 percent (data on Fujian province is temporarily lacking), which is 2.58 percentage points lower than the national figure. The adult population (age 15-59) accounts for 62.88 percent of the total population. With the exception of individual provinces and municipalities, the coastal population of adults are in general higher than the national figure. Among them, the Beijing figure is as high as 69.29 percent; other figures are 68.51 percent for Shanghai, 67.59 percent for Tianjin, 67.54 percent for Liaoning, 67.52 percent for Jiangsu, and 66.10 percent for Zhejiang.<sup>1</sup> Although the percentage of old people aged 60 or above in the coastal areas is rising, the rate of increase of old people is still lower than that of adolescents. Hence, the number of adolescents and old people combined and the proportion in the entire population, i.e. the population group that depends on the support of the adult population, tends to decrease. This tendency will continue to the end of this century. In most provinces and municipalities it will continue through 2010-2020. A "golden age" will appear during which the production age population will be of a higher percentage than the adolescent and aged population.

How should one look at such change in the age structure of the population? In one aspect, the development of the population and labor force is faster than that of the economy. Therefore, it will be better for the production age group not to expand; otherwise, there will be more pressure on employment and problems and difficulties in economic development. In another aspect, the continuous growth of the production age group is determined by the present population age composition. In the aspect of economic development, a high percentage of the production age group in the entire population means a lower proportion of the adolescent and aged in the population needs support, and the societal burden is lower. This can only be a favorable opportunity. This is an asset for the population of China, especially along the coast. In most developed countries today, the population is aging and the society's burden is increasing. In some countries, the proportion of the production age group has ceased to grow and the labor force is more expensive than before due to a shortage of labor. In most developing nations, high fertility rates have led to an excessively high proportion of the adolescent age group and a heavy social burden. The proportion of their production age group is not high either. China is in between the two. On the one hand, an abundant supply of labor can prevent a drastic increase of costs. It ensures the assets of rich population and labor resources and low costs. On the other hand, since the production age group will only expand in the next two to three decades, the state of low labor costs and light burden will continue for an extended period of time, and this gives China a more favorable opposition than the two groups of countries mentioned.

Another asset of the coastal population lies in its connections with the overseas Chinese. As we all know, most overseas Chinese and Hong Kong and Macao citizens are

natives of coastal areas of China, or their ancestors were. Guangdong and Fujian Provinces are typical of this. The number of overseas Chinese, Chinese with foreign citizenship, and Hong Kong and Macao citizens with Guangdong ancestors is estimated to be 24 million, which is 60 percent of their total. Those with ancestors from the triangular region in south Fujian number about 4 million.<sup>2</sup> Overall, Over 90 percent of the Chinese who have migrated from China have their roots in the coastal areas. By the same token, most overseas Chinese returning from abroad, families of overseas Chinese, and relatives of Hong Kong and Macao settle in coastal areas. Available data show that in Guangdong alone, such people number more than 20 million, which account for one-third of the province's population. In some places the proportion is as high as one-half of the local population.

Our overseas Chinese, Chinese with foreign citizenship, and Hong Kong and Macao citizens have a glorious tradition of patriotism. They contribute a great deal to the development of the nation and its people by founding schools, enterprises, and introducing science and technology into China. They have played a major role in our modernization movement in recent years. In our implementation of the economic development strategy for the coastal areas, we have to actively attract foreign capital and develop production of raw materials and enterprises that manufacture export-oriented products with imported raw materials. This gives patriotic Chinese abroad an opportunity to contribute to their motherland as well as those in their industrial and business sectors an opportunity to invest in and transfer technology to China. They can benefit from their involvement in sole proprietorship, joint ventures, and commodity trade in China. Large numbers of returned Chinese, families of overseas Chinese, and relatives of Hong Kong and Macao citizens in our coastal areas maintain their natural overseas connections. They play an active role in the development of the export-oriented economy by being a party in joint ventures and by making use of their connections to become agents and links of communications.

The above mentioned favorable factors in terms of the size of the coastal population shows the unique assets of coastal regions in their development of an export-oriented economy. These assets give strong support to the economic development strategy for our coastal areas.

However, we must also realize that as the population and production age group of the coastal areas are growing fast, pressure on employment will continue to increase. Therefore, a critical task confronting the economic development of the coastal areas is the maintenance of a continuously rising labor productivity while solving the problem of employment for an ever increasing production age population.

An equally imperative task is, with economic development and the population increase, the conflict between dense population and scarcity of land along the coastal areas will be more acute than before. This is particularly

serious in the Zhujiang delta, Changjiang delta, Shantung peninsula, Liaodong peninsula, Beijing-Tianjin-Tangshan area, and the south Fujian triangle, which are more developed economically. The population density of the economic centers in these places may be more than 10 times higher than that of the nation. They are top population density areas by Chinese or even world standards. In some places, the population density has reached or will reach saturation. However, with the exception of Hainan province, the priority areas of coastal economic development strategy are these two delta regions, two peninsulas, and two regions. In these places, industrial and urban development has caused the cultivable land per capita to drop drastically. The implementation of the economic development strategy in the coastal areas will lead to expansion of urban industries and commerce, infrastructure, and communications and transportation. With the emergence of the end of re-industrialization, more land will be in demand, and cultivable land will further shrink. From the present age structure of our population, we can see that there will be a baby boom in the next 10 years. This decrease in one aspect and increase in another determines the further drop of cultivable land per capita. At present, cultivable land in the coastal areas has become a scarcity. To accommodate this situation, an important thing to remember in the economic development strategy of the coastal areas is to try as much as possible to minimize the encroachment upon cultivable land, so as to check the drastic shrinkage of cultivable land.

### Quality of the Population

Population quality refers to the educational and health quality of the population. Broadly speaking, it also includes the moral quality of the population. In general, the educational and health quality of the Chinese population is still not high enough. However, in comparison that of the coastal areas is higher than that in the interior. For example, in 1987 those with university educations made up 0.88 percent of the population in China. Apart from individual provinces and regions, the coastal areas had higher percentages. The figures were 7.09 percent for Beijing, 5.63 percent for Shanghai, 3.31 percent for Tianjin, 1.57 percent for Liaoning, and 1.05 percent for Jiangsu. On the contrary, illiterates and semi-illiterates aged 12 or above made up 20.59 percent of the entire Chinese population. The corresponding figure for Liaoning, Beijing, Tianjin, Shanghai, and Guangdong has dropped to below 15 percent.<sup>3</sup> The figures for the other areas were more or less the same as the national figure. The above illustrates that the coastal population is of a higher educational level, qualified personnel are more concentrated along the coast, and the ability to develop science and technology is stronger there.

However, we need to further investigate ways to assess the educational quality of the population, especially in terms of how to set up assessment criteria. In our censuses and population registrations, we have always



been using six categories to assess the educational standard of the population, namely, completion of university education, university attendance, upper secondary, lower secondary, primary, illiterate or almost illiterate.

Sometimes the first two categories are combined as population with university education, and the last category is seen as illiterate or semi-illiterate. Therefore, this method is not meticulous enough and is only suitable for comparison of the same category rather than the average educational quality of the population between one region and another. It cannot tell with precision the general educational quality of the population in a region. Also, different criteria may give contradictory findings about the educational quality of a population. Take Guangdong as an example, in 1987, the percentage of the Guangdong population with a university education was lower than the national figure, but the percentage of illiterates and semi-illiterates was also lower than the national figure by 5.75 percent. Therefore it is hard to judge whether the educational standard of the Guangdong population is higher or lower than the national standard. Moreover, the development of the national economy demands both specialized personnel with higher educations as well as large numbers of skilled workers and trained laborers who have received secondary education or technical education at the secondary level. This point can be proved by the economic take-off of Japan in the 1950s and 1960s. In the 22 years between 1951 and 1973, while actively developing higher education and expanding the number of university graduates by 15 times, Japan also made upper secondary education compulsory and trained large numbers of skilled workers. In this way, Japan developed its own technology on the basis of effective absorption of advanced technology from abroad. In less than 20 years, Japan was able to eliminate the technological gap of about 30 years between it and the developed nations of the West. Therefore, in our assessment of the educational quality of our population, it is not enough just to pay attention to the percentages of those with university education and those without education. We must also look at those with secondary and primary school educations. Also, we should arrive at an index that can reflect the average educational attainment of the population so that it is simplified and comparable. It can be called the population educational index and should reflect the population's average number of years of education received. Based on the reality in China, the average number of years needed to complete a university education or to be attending university is 16, and the average number of years needed to attain an upper secondary education is 11. For lower secondary it is 8, for primary it is 4, and for illiteracy or near illiteracy it is 0.25. If calculated this way, the educational index of the national population for 1987 is 4.65. Along the coast, the index is 7.12 for Beijing, 6.93 for Shanghai, 6.43 for Tianjin, 5.82 for Liaoning, 4.91 for Jiangsu, 4.83 for Hebei, 4.76 for Guangdong, and 4.71 for Zhejiang. These figures are all higher than the national figure in different degrees. Only the Shandong, Guangxi, and Fujian figures are slightly

lower than the national figure, but they are still far higher than those of other places, such as 1.47 for Tibet, 3.13 for Qinghai, 3.27 for Yunnan, and 3.51 for Guizhou. I believe that the indexes calculated in this way can reflect the level of educational attainment of the population in each place. However, I must also point out that in the top category, the number of years may vary by a few years since included in the same category are those who have completed university education, those who are still attending university, those in senior years, and those in junior years of university. Also, the education system has gone through a log of changes over the years, and there has been the development of forms of adult education such as correspondence programs and television university, so that the numbers of years required to attain the same level of education vary and the coefficient of the average number of years of schooling for each category can only be approximate. This is why I call the it educational index of the population rather than the average number of years of schooling of the total population. Since the same constant coefficient is used in the calculation of the same level of educational attainment, this index is very comparable and is representative of the educational quality of the entire population.

The health of the coastal population is also better, as manifested by lower infant mortality rates and longer life expectancy. The infant mortality rates of Beijing, Tianjin, and Shanghai had dropped from 65.7 percent, 46.8 percent, and 37.7 percent respectively in 1952 to 10.0 percent, 11.7 percent, and 12.6 percent respectively in 1985, which are close to the level of developed nations.<sup>4</sup> Life expectancy has been extended a great deal, especially in terms of the percentage of those aged 80 or above in the population aged 60 or above. According to the 1982 census, the average national longevity rate was 6.6 percent. In the coastal areas, apart from Hebei whose rate was 6.5 percent, the rates were generally higher than the national figure. The rates of Zhejiang, Guangdong, Shanghai, Liaoning, Jiangsu, Guangxi, Shandong, and Beijing were all above 7.1 percent. Of the nine provinces, municipalities, or regions with the highest life expectancy in China, eight were found in the coastal areas.<sup>5</sup> Generally speaking, areas with better-educated population also have healthier population since the prerequisites for both, such as the development of science, education, culture, medicine, and sanitation, are the same. They are all built upon a certain degree of economic development. With their more developed economy, the coastal areas can ensure a better-educated and healthier population and labor force, which is an important factor in attracting investment and technology. The quality of the population and labor force is a reliable manpower guarantee in the implementation of the economic development strategy for the coastal areas.

The major problem in the educational quality of the coastal population lies in the great disparity between one area and another. Using the educational index of the population as a yardstick, eight provinces and municipalities, namely, Beijing, Shanghai, Tianjin, Liaoning,



Jiangsu, Hebei, Guangdong, and Zhejiang, are clearly higher than the national index, whereas three provinces or regions, namely, Shandong, Guangxi, and Fujian are clearly lower than the national average. The Beijing index is 7.1, which is 1.7 times higher than the Fujian figure of 4.1, which is the lowest in the coastal areas. The Shanghai index is 6.9, which is 1.6 times higher than the Guangxi index of 4.4. If the comparison is by category, the contrast is even more striking. In the proportion of those with university education per 100,000 people, the Beijing figure is higher than the Shandong figure by 13.7 times, and the Liaoning figure is higher than the Guangxi figure by 3.7 times. Of the proportion of illiterates and semi-illiterates per 100,000 people, the Shandong figure is higher than the Beijing figure by 2.1 times, the Guangxi figure is 1.5 times of the Liaoning figure. Broadly speaking, apart from Hainan, the 11 coastal provinces, municipalities, and regions can be divided into three groups. Beijing, Shanghai, Tianjin, and Liaoning belong to the high group, with their educational index higher than 5.8, which is 1.2 percent higher than the national average of 4.6. Jiangsu, Hebei, Guangdong, and Zhejiang belong to the middle group, with an index that is slightly higher than the national average. Shandong, Guangxi, and Fujian belong to the low group, with a lower educational index than the national figure. We should also recognize that even with the same province, municipality, or region, the quality of people varies. For example, although Fujian has a low index, the quality of the population of towns on the coastline such as Xiamen, Quanzhou, Putian, and Fuzhou is quite high. It is high both by Fujian and national standards. Similarly, the educational index of the Shandong population is lower than the national index, but that of Jiaodong peninsula is higher than the national index. Therefore, while recognizing that the coastal population is better educated, we must do some concrete analysis. High and low are relative concepts. Within the high areas there are low areas, and vice versa.

Since the educational quality of the coastal population is not uniform, while our economic development strategy focuses on the combined labor-intensive and labor and knowledge intensive industries, we must not apply the same approach to all areas indiscriminately. For provinces and municipalities with a better-educated population and better-educated areas within less-educated provinces and regions, while the emphasis is on the development of labor-intensive industries, the local context should also be taken into consideration. More effort should be devoted to the development of labor combined with knowledge, technology, and capital intensive industries, and some effort should be devoted to the development of a small amount of purely knowledge-intensive, technology-intensive, and capital-intensive industries. We must not just emphasize the development of labor-intensive industries and ignore the rest, otherwise we will take the road of "getting on the job with local methods" again. The development of the electronic street in Zhongguancun, Beijing proves that it is definitely possible to develop high-tech industries where

there is a high concentration of qualified personnel. On the other hand, less-educated provinces and regions and less-educated areas within better-educated provinces and municipalities must adhere to the road of developing labor-intensive industries and make full use of their abundant labor supply. At the same time, they must remember that we are talking about labor-intensive industries in the 1980s, which must be combined with modern science and technology and built on the basis of trained laborers and scientific management. The mistake of relying solely on large numbers of people must not be committed again. This means in the overall layout of our economic development, the difference in educational quality of the areas should be taken into consideration alongside other factors, so that labor-intensive industries, labor combined with knowledge, technology, and capital intensive industries, and small amounts of knowledge-intensive, technology-intensive, and capital-intensive industries are distributed by area and by level.

### The Population Structure

The population composition can be discussed in the narrow sense and broad sense. The narrow sense refers to the age and sex structure i.e., the natural structure, of the population. The broad sense refers to the natural structure as well as the economic and social structure. Here we discuss mainly the impact and restraints of the economic structure of the coastal population on the economic development strategy of the coastal areas.

The coastal areas are more advanced in terms of the rural-urban composition and occupational composition of their population, which are results of their socioeconomic development. In general, the more developed the economy, the higher the proportion of the urban population. For example, in 1987, urban population made up 43 percent of the population of the world, 72 percent of the population of developed nations, and 34 percent of the population of developing nations. At the same time, the higher the level of urbanization of the population, the lower the proportion of the population in agricultural labor. In 1987, 74 percent of the American population was urban and only 3 percent was directly involved in agricultural labor.<sup>6</sup> On the other hand, once the rural-urban composition and occupational composition of the population are formed, the functions and rippling effects of a city as the center and leader of a specific area will be felt in the development of the area economy, transportation, trade, finance, and information. The effect of the population composition will be manifested too.

These factors will ensure a relatively stable framework of economic operation and restrain and affect the economic development of the area. At present, the level of urbanization of the Chinese population is not adequate. According to statistics, in 1987, 37.1 percent of it was urban. However, it varies according to the region. In general, urbanization was low in the west and high in the east of China. For example, less than 20 percent of the Tibetan and Qinghai population was urban, compared

with 20-30 percent in Yunnan, Guansu, and Guizhou. The figure was 43.7 percent along the southeastern seaboard, which was 6.6 percent higher than the national figure. For Shanghai, Tianjin, Beijing, and Liaoning the figure was even above 60 percent.<sup>7</sup> Related to urbanization is that apart from Guangxi, Hebei, and Shandong, there is the characteristic of "one low and three highs" in the occupational structure of the coastal population. "One low" refers to the low proportion of laborers in agriculture, forestry, animal husbandry, and fisheries. In 1986, laborers in agriculture, forestry, animal husbandry, and fisheries accounted for 56.3 percent of the nation's population aged 15 and above. Comparable figures are 18.1 percent for Shanghai, 18.8 percent for Beijing, 21.9 percent for Tianjin, 29.9 percent for Liaoning, 46.0 percent for Zhejiang, 49.7 percent for Fujian, 51.5 percent for Jiangsu, and 55.5 percent for Guangdong, which are all lower than the national figure in varying degrees. "Three highs" refer first to the high proportion of production workers, transportation workers, and related workers. In 1986, the national percentage of these three groups was 12.5 percent. Comparable figures are more than 30 percent for Beijing, Tianjin, and Shanghai, more than 20 percent for Liaoning and Zhejiang, close to 20 percent for Jiangsu, and more or less the same as the national percentage for the other parts of the coastal areas. Second, "three highs" refer to the high proportion of specialized personnel in different fields in the population. These people made up 4 percent of the national population in 1986. Comparable figures are more than 8 percent for Beijing and Shanghai, 7.7 percent for Tianjin, and 5.7 percent for Liaoning. The Jiangsu figure is slightly higher than the national one. The other areas are slightly lower than the national level. Third, "three highs" refer to the high proportion of the population in commerce. In 1986 the national figure for this was 1.4 percent. Comparable figures are more than 2.4 percent for Beijing, Tianjin, Shanghai, and Liaoning; and more than 2.1 percent for Guangdong. The figures for the rest of the areas are more or less the same as the national level.<sup>8</sup> The occupational structure characterized by "one low and three highs" signifies the progress of the coastal areas toward a modern occupational structure. Combined with a relatively high level of urbanization, it enables the participation of the coastal areas in international competition.

Closely related to the relatively advanced rural-urban composition and occupational structure of the coastal population are the ever increasing floating population and migratory population, which has led to coastal characteristics in the pattern of population flow and distribution by area. For many years, the settlement and employment of the population were rather stable as a result of the undeveloped commodity economy and an enclosed economic system. This served to fix the economy which was already rigid enough and gravely hindered economic development. The reform and opening up has broken through this rigid state. On the one hand, the reform of the rural economic system has greatly liberated the productive forces, and the rise of the

agricultural labor productivity has created conditions for the transformation of surplus agricultural labor. On the other hand, the reform of the urban economic system has promoted the development of various forms of ownership and various kinds of management of commerce and industry in cities and towns. There have been expanded opportunities and places in towns and cities for the surplus agricultural labor so that the floating and migratory populations have increased tremendously. Especially since 1984, restriction on rural dwellers' entry into towns has generally been relaxed. They have been allowed to bring with them their own grain ration to take part in industries, commerce, and various service activities. Therefore, there is a large floating population which "leaves its native village but still belongs to it" and a large migratory population which "leave its native village and no longer belongs to it." According to research data, in Zhejiang Province more than 2 million peasants have left their villages to work in industries and commerce. In Wenzhou alone 300,000 people have done so. The floating population of Beijing and Shanghai is 1 million each. For several years, the number of construction workers in Beijing who have come from elsewhere has remained in the region of 100,000. They have become a competitive construction team. Two points merit concern in the flow and migration of the coastal population. First, the building of the special economic zone has attracted a large floating population and a large migratory population. For example, more than 200,000 people have gone to Shenzhen to take part in various items of construction and service. The daily floating population in Xiamen, which has a population of some 300,000 only, is 60,000. Second, in the past, the outgoing population was larger than the incoming population in the coastal areas. Now the situation has reversed. The incoming population tends to exceed the outgoing one. This shows that with the reform, opening up, and reinvigoration of the economy, the market mechanism is beginning to effect the regulation of the population and the labor force. New channels have been explored for people to use their skills.

The accelerated urbanization of the coastal population and the drastic increase of floating and migratory populations have also brought new problems which involve the overall development of the coastal economy. Some of these problems are rather serious, others have just surfaced. Since the development of the export-oriented economy along the coastal areas will attract more floating and migratory populations, it will boost the speed of transfer of rural population to towns and cities. In the absence of an effective mechanism to regulate such a flow, a certain number of people will just blindly float in or migrate to towns and cities, which will lead to two things. First, too many peasants may abandon agriculture for industry and commerce. This will affect the use of and input into the land and result in sluggishness in agriculture, an inadequate supply of certain agricultural products and by-products, and more acute tension and price fluctuations of the market. In towns and cities, the labor service market may be larger than the demand. The

advantage is labor costs will remain low, which is an asset. However, that is also where the major disadvantage is. It will be difficult for us to get rid of the cycle of "low wages and high employment—inability to raise the labor productivity—low wages and high employment." We will not be able to enter the benign cycle of "higher incomes and reasonable employment—quick rise of labor productivity" without encountering major difficulties. Also, the large flow of floating and migratory populations to cities will accelerate the urbanization of the population. Urban housing, transportation, and the supply of non-staple food which are already tight in the cities will be even more problematic, and urban management will be more difficult. Ultimately, they will affect the results of the implementation of economic development strategy in the coastal areas. One of the major issues that demands serious attention in the economic development strategy of the coastal areas is to examine the effect of the coastal floating and migratory populations on the fast urbanization of the population and retain the advantages and eliminate the disadvantages. It goes without saying that we must not adopt the method of "blocking" or "checking" people which we did in the past by pushing the floating and migratory populations back to rural areas. This will be unfavorable to the normal development of the urbanization of the population and of the rural and urban commodity economy. Neither will it be approved by the economic development strategy for the coastal areas which aims at reinvigorating the economy. Least of all should we leave the problem of floating and migratory populations alone, or even "eliminate the urban household" and let peasants enter the cities freely. This will disrupt the normal order of the cities and create many obstacles to the thorough implementation of the economic development strategy of the coastal areas. In the face of the accelerated urbanization of the population and the ever increasing floating and migratory populations, the overall principle of the economic development strategy of the coastal areas should be to make use of the favorable side of the flow of the population and labor force and avoid and restrict the unfavorable side. We must grasp the objective pattern of the population flow and urbanization. Under the prerequisite of promoting population flow, planned control and management should be strengthened and concrete policies should be formulated for different scopes of towns and cities.

#### Footnotes

1. Calculated from "Main Data from a random sampling survey of 1 percent of the population of China in 1987," Zhongguo Tongji Chubanshe, 1988 edition.
2. "China Population Yearbook 1986," Shehui Kexue Wenxian Chubanshe, 1987 edition, pp 268, 252.
3. See "Main Data from a Random Sampling Survey of 1 Percent of the Population of China in 1987."

4. See "Social Statistics of China, 1987," Zhongguo Tongji Chubanshe, 1987 edition.
5. See "China Statistical Yearbook 1987," Zhongguo Tongji Chubanshe, 1987 edition.
6. See "The 1987 World Population in Statistical Tables" in english, U.S. Population Enquiries Bureau.
7. See "Main Data from a Random Sampling of 1 Percent of the Population of China in 1987."
8. See "China Statistical Yearbook 1987."

## TRANSPORTATION

### Heilongjiang Shipping Bureau Helps Increase Trade With USSR

40060006a Beijing ZHONGGUO JIAOTONG BAO in Chinese 17 Aug 88 p 1

[Article by reporter Tian Jinlan 3944 6855 5695: "Fast and Extremely Vigorous Development of Sino-Soviet Trade; Heilongjiang Shipping Bureau Authorized to Trade Directly with the USSR"]

[Text] Sino-Soviet border trade, which started a few years ago, is rapidly and vigorously developing, and its trade network is now gradually expanding to the interior of the two countries. The Shipping Bureau of Heilongjiang Province is actively participating in Sino-Soviet trade, and has obtained authority for direct trade with the USSR.

The Heilongjiang River and the Usuri River combine Heilongjiang Province and the Soviet Union's Far East into one entity of over 1 million sq. km. In 1986, Heilongjiang Province opened ports along these rivers and restored border trade with the USSR, which had been interrupted for over 20 years. At present, Heilongjiang Province has opened 9 ports to the Soviet Union, and border trade between the two countries is becoming brisker day by day. Harbin alone is annually exporting over 3 million tons of commodities to the Soviet Union, and in return obtains from the Soviet Union timber, cement, chemical fertilizer, and other commodities, which amount to more than Harbin's exports. Because trade between the two sides is complementary, the trade volume is doubling year by year.

With the exception of Suifenhe and Mishan, in the other 7 out of the 9 ports opened for trade, commodities are imported and exported by water. On the basis of many years of contacts with the Soviet shipping departments, exceptionally advantageous conditions have been obtained, and on 16 May this year, the Shipping Bureau of Heilongjiang Province established a foreign trade company and obtained authority to conduct direct trade with the Soviet Union. On 28 May, the first contract was signed for the construction of a passenger ship for the

Soviet Union. Recently, both sides have had frequent contacts and reached six agreements on technical cooperation, labor export, and the three forms of processing and compensation trade.

Because both the Soviets and the Chinese lack foreign exchange, their border trade is barter trade. The Chinese side exports light industrial goods, such as video tape recorders, duplicating machines, TV sets, motorcars, and down-quilted clothes, and agricultural products, such as fruit, beef, and potatoes. The Chinese side imports raw materials and building materials, such as petroleum, timber, steel, cement, and chemical fertilizer.

With trade rapidly growing, a trade network is now developing which centers around the opened ports and extends to the interior of China and the Soviet Union, and also to Hong Kong, Macao, and Eastern Europe. The Shipping Bureau of Heilongjiang Province is now changing from the original way of trading only with the shipping departments of the Soviet Union to trading with other departments, such as, Soviet consumer cooperatives, fishery cooperatives, industrial trading companies, and forestry industries. The Soviet Union hopes to institute entrepot trade through China to obtain advanced products from Japan and other developed capitalist countries. In China, spaceflight, post and telecommunications, forestry and other departments, as well as 15 large enterprises in Shenzhen and other places have requested the Foreign Trade Company of Heilongjiang's Shipping Bureau to be their agent for trade with the Soviet Union, and have sent a large variety of domestic, Japanese, and Hong Kong products and samples. In August, the said company will display all these samples on a foreign affairs ship for the Soviet side to inspect and place orders.

#### **Liaoning Transportation System Experiences Difficulty**

40060006b *Shenyang LIAONING JINGJI BAO in Chinese 16 Aug 88 p 2*

[Article by reporter Wang Yunqi 3769 6663 3823: "Transportation in Liaoning Province Overtaxed by Busy Schedule"]

[Text] The continuous and steady development of industrial production in Liaoning Province during the first half of 1988 brought about a huge increase in communications and transportation during the same period.

The railway dispatched 109.13 million tons of cargo during the first half of 1988, an increase of 6.19 million tons, or 6 percent, over the corresponding period in 1987. Cargo arrivals from January to May amounted to 103.11 million tons, an increase of 6.68 million tons, or 7 percent, over the same period in 1987. The volume of railway passenger transport was 144.71 million, a 3.6 percent increase over the same period in 1987.

The volume of passenger and freight transport by motor vehicles of communications departments increased 9.8 and 7.5 percent, respectively.

Main ports along the coast handled 24.3 million tons of cargo, a 5.7 percent increase over the same period last year. The volume of passenger transport by sea was 1.939 million, an increase of 5.1 percent over the same period last year.

Freight/Mail and passengers transported by civil air lines increased 33.3 and 32.5 percent, respectively, compared to the same period last year. Petroleum pipelines handled 21.96 million tons of petroleum, an increase of 1.5 percent over the same period last year. The business volume of post and telecommunications services was 122.38 million yuan, an increase of 19.3 percent over the corresponding period last year.

Although communications and transport overfulfilled their quotas in the first half of 1988, the tight situation in transportation has not been alleviated, and is manifested in the following ways:

- 1) The contradiction between cargo volume and transport capability has become more acute. Although such methods as temporarily running additional passenger trains and increasing the number of trains were used, the difficulties of obtaining tickets and seats is still a pressing problem.
- 2) Demands for railway cars from freight transport enterprises far exceeds the capacity of the railway.
- 3) The limited entrance points for cargo shipments to China proper are causing increasing difficulties.
- 4) An increasing quantity of key commodities in storage throughout the province are awaiting transportation.
- 5) Ocean transport capability is insufficient. Over 400,000 tons of cargo at the ports of Dalian, Yingkou, Dandong, and Jinzhou await shipment to coastal East and South China.

The transportation situation is expected to become worse in the second half of 1988. To ensure the continuous and steady development of Liaoning's economy, communications and transportation must improve the transport structure and exploit further potential. For this purpose:

First, railway departments must enhance the overall balance in the monthly transport plans, make overall arrangements, ensure fulfillment of key tasks, and especially treat the transport of energy sources as the most important matter.

Second, actively readjust the transportation structure, and better organize different routes for public highways and railway lines. Gradually change transportation of commodities from Shenyang to all neighboring cities from railway to motor vehicle transportation and thus save railway cars for long-distance transportation and bulk commodity transportation.

Third, expand capacity for north-south sea transportation to relieve the serious overstocking of freight destined for shipment to Shanghai and Guangzhou.

Fourth, strictly control and reduce unjustified shipments.

Fifth, improve coordination and organization in the transportation weak areas of Benxi, Fushun, and Chaoyang to avoid traffic jams and serious overstocking of key commodities.

## AGRICULTURE

### Article Views Futures Market

HK1209091488 Beijing RENMIN RIBAO in Chinese  
5 Sep 88 p 5

[Article by Chang Qing 1603 3237: "Brief Discussion on Establishing the Futures Market"]

[Text] Futures market refers to a market for contracts to buy or sell a commodity at a stated price at some future time. The commodity is not brought into the futures market. What is bought or sold is the futures contracts. The futures market of a certain commodity refers to the well-organized exchange of this commodity. This exchange provides a continuing and stable market for the futures transactions. The trade of commodity futures sprouted in the age of the ancient Roman Empire. Before crops were harvested, city merchants often placed orders with farmers in advance, and then completed the transactions after the harvest. The buyer placed an order and the seller delivered the goods through a middleman, who was authorized by both sides to supervise the implementation of the contact and to guarantee that the buyer would pay and the seller would deliver the goods at due date. The market similar to modern futures trade appeared in Japan in the 17th century; and the birth of the modern futures markets was marked by the founding of the Chicago Butter and Eggs Chamber of Commerce in 1848. It was later renamed Chicago Commodity Exchange. In the 20th century, more and more commodities can be traded in futures. They include cereal, cotton, sugar, edible oil, livestock, timber, nonferrous metal, and petroleum. In 1972, foreign exchange and securities could also be traded in futures. At present, there are more than 70 commodity futures exchanges. The dealings in these exchanges account for 15 percent of the world's total trade volume; and the prices in 85 percent of the farm product transactions in the world are fixed according to the futures prices.

So far, no futures market has been set up in the socialist countries. Why does our country put forward the task of establishing a futures market? I think that this is an objective requirement in the development of the commodity economy and the economic reforms in our country. First, after our rural reforms began, a double-track price system appeared. Grain and cotton are subject to

both state purchases and free market transactions. Such nonstaple food as pork and such cash crops as hemp have also gradually been subject to market regulation. The double-track price system is also applied to the means of production. After the reforms promoted the commodity economy, the prices of some farm products and the supply and demand of these farm products fluctuated violently. This state of affairs requires us to perfect the market mechanisms. Second, in the vast territory of our country, agricultural production is relatively scattered. In particular, rural households are now independent producers. If each of them increase production a bit, the farm products may be oversupplied; but if they reduce production a bit, there may be a shortage. It is hard to rely on the means of planning to coordinate such widely scattered production. So we must give full play to the role of the market. Practice in recent years showed that the post-production regulation of the spot markets could hardly play a role in guiding production because they did not allow people to clearly see the real market conditions. Third, our structural reforms have entered the stage of building a new structural framework, and need to complete the change in the economic mode as soon as possible. So the market mechanisms must be perfected in light of the objective laws that govern the development of the commodity economy. According to these objective requirements in economic development and structural reform, we clearly pointed out the necessity of deepening the reforms for building a perfect market system in theory in 1985 and adopted practical measures for this purpose. For example, we adopted the measure for integrating production with marketing, fixed the lowest protection price for some products, increased the storage capacity to regulate the market supply, organized some wholesale markets, and gave financial subsidies for some items. Although these measures achieved certain results, they still did not solve such problems as the lack of a market signal for pre-production regulation and the failure in helping producers and dealers prevent the risks on spot markets. The development of the commodity economy requires the emergence of the futures market.

The futures market will play three major functions: First, it will provide a means for producers, dealers, and consumers to guarantee their incomes and hedge their business risks. This will help protect the interests of producers and dealers. Second, it will give market signals for pre-production adjustments, thus mitigating the fluctuation of supply and demand in the next cycle. Because futures dealers will buy or sell a commodity which is delivered at a future time, they must collect a large quantity of information to analyze the factors that will affect the price and the supply and demand of this commodity in the future period, and the futures transactions based on the collection of a large quantity of economic information will greatly increase the openness of the market, which can thus give guidance to production in the coming cycle, thus reducing the blindness and mitigate the price fluctuation and the supply and demand fluctuations. Third, it helps prevent the price fluctuations caused by monopoly, time

differences, and regional factors, increases the openness of the market, and ensures the forming of fair prices. Because the principles of concentration, openness, and fair competition on the futures market, no middleman can profiteer by means of monopoly or by making use of time and regional differences and the lack of information. Only through the participation in the fair competition of large numbers of sellers and buyers can fair prices be formed and the openness of the market be increased.

Then, in the present stage in our country, how should we build a futures market? In my opinion, we should decide what commodities can be traded in futures and what model the futures market should adopt in light of the actual conditions in our country.

According to the course of reform and opening up and the development of the national economy in our country, we may first set up a futures market for commodities before financial products, and set up a futures markets for farm products before other commodities. This is because: 1) The commodity market in our country is better developed than the finance market; 2) the reforms for perfecting the commodity market were started ahead of those for the finance market; 3) the dealings in actuals on the finance market are still in the initial stage; and 4) the price fluctuation and the supply-and-demand fluctuation in farm products are more obvious, and it is more urgent to set up a futures market for farm products.

There is a wide gap in the development level of the commodity economy between our country and the countries with a developed market economy, and our domestic development is uneven too. So we cannot completely imitate the foreign practice and try to set up a highly developed futures market in one move, and we cannot stipulate only one model for the futures market without regard to the differences in commodities and regional factors. So, in my opinion, we may explore three market models in light of our social and economic conditions, the product characteristics, and different regional factors: 1) Imitating the practice in the early form of the futures markets by perfecting the forward contracts and the wholesale markets. The main efforts are made to develop forward contracts, and the transfer of such contracts is supplementary. 2) Making explorations by learning from the practice in modern futures markets. The delivery of commodities is taken as the main purpose of the forward buying, and short-term investment for hedging the risks is taken as a supplementary step. Producers and merchants are the main participants in the futures transactions, with a small number of brokers playing a supplementary role. The forward contracts should mainly be implemented, and they can also be taken as a means of hedging risks. 3) Building a modern futures market, and those to be sold or bought are mainly standard futures contracts through futures brokers. The main function of such transactions is to hedge or reduce business risks. The market can attract a large number of investors. This model can be adopted in the coastal areas

where there are better conditions with a stronger sense of the commodity economy and a large number of short-term investors and abundant funds.

**Large Pork Base Established in Jiangsu**  
40060056b Nanjing XINHUA RIBAO in Chinese  
25 Aug 88 p 1

[Article by Shen Shiping 3088 6624 6097: "Province Sets Up 20,000 Ton Pork Storage and Hog Raising Base"]

[Text] To regulate supply problems caused by brisk and slack seasons for hog procurement, the provincial food company has set up a hog production base capable of storing 20,000 tons of pork and of raising more than 300,000 hogs, thereby emphasizing production and taking the lead in hog raising in a departure from past preoccupation with only "procuring hogs and selling pork." During the Moon Festival and national day in 1988, it was able to market 55,000 live hogs; 140,200 hogs year round, and 103,000 hogs during the new year and the lunar new year.

In setting up a commodity hog base, this company focused on cities, and linked pork with plants to develop the scale of hog raising (100 and up) for food stations. It also spurred large hog raising households in the surrounding area selling more than 50 hogs a year, as well as other units, to raise hogs. Today, this commodity hog base has 325 food stations, linked pork plants, and hog farms engaged in raising 160,000 hogs. In setting up commodity pork bases, the provincial food company made sure to develop operations on a suitable scale, and to establish an associated service system. It provided financial support for pig stys at the base, for fodder processing, and for the breeding of superior breeds. It established a responsibility system for hog raising, and inaugurated scientific hog raising, a single stockman being able to take care of between 100 and 150 hogs. The hogs put on weight at the rate of 0.5 kilograms per day; the fodder to meat ratio is 1 to 3.5; and the death rate is lower than 1 percent.

**Shaanxi Farm Machine Sales During First Half of 1988**  
40060056c Beijing JINGJI CANKAO in Chinese  
19 Aug 88 p 2

[Article by Tian Zhongru 3944 1813 3067: "Buying and Selling Brisk in Shaanxi Farm Machine Markets; Net Sales For First Half of Year Up 26.7 Percent Over Same Period in 1987"]

[Text] During the first half of 1988, buying and selling was very good in Shaanxi Province's farm machine markets. Statistics from the farm machine information network of the Shaanxi Provincial Bank put at 99.9 million yuan the gross value of net domestic purchases in

the farm machine company system throughout the province. This was 30.8 percent higher than the same period in 1987. The gross value of farm machines in inventory was 102.77 million yuan, up 13.5 percent over the same period in 1987.

Purchases and sales for the six major types of farm machines shows that, except for a slight decline in purchases of semi-mechanized farm implements, there was an increase over the same period in 1987 for all other categories. Purchases and sales in the mechanized farm machine and implements category increased by 44.5 and 25 percent respectively; purchases and sales of machines in the drainage and irrigation, and power machinery category increased by 30.7 and 49.2 percent respectively; purchases and sales of machines in the agricultural and sideline processing category increased by 84.4 and 32.5 percent; purchases of machinery in the semi-mechanized farm implement category decreased 1.3 percent, but sales increased 22.1 percent; purchases and sales in the maintenance and spare parts category rose 17.3 and 26.6 percent respectively; and purchases and sales in other categories increased 133.2 and 123.6 percent respectively.

Sales of power machinery by farm machine companies in all counties was brisk, demand for diesel engines outstripping supply. During the first half of 1988, 9,931 power machines were sold throughout Shaanxi, up 4.7 percent over the same period in 1987. As township and town enterprises increase, sales of power machines will continue to grow. During the first half of the year, 1,322 diesel engines were sold throughout Shaanxi, a 94.7 percent increase over the same period in 1987.

A Shaanxi Provincial Farm Machinery Administration survey found that in 1987 specialized transportation households throughout Shaanxi had earnings totaling 385.42 million yuan, or 58.5 percent of gross earnings from farm machine business, making them first among specialized households. Therefore, machines used in transportation have increased. During the first half of 1988, 5,254 small four-wheeled hand tractors were sold in Shaanxi, up 20.4 percent over the same period in 1987. Development of rural transportation, and the increase in sales of small four-wheeled hand tractors stimulated an increase in sales of small trailers. For example, 3,730 small trailers were sold throughout Shaanxi during the first half of 1988, a 23.2 percent increase over the same period in 1987, and forecasts call for steady increase in sales of small four-wheeled tractors and farm trailers during the last half of 1988.

As state investment in agriculture increases and the ownership of tractors in rural areas increases steadily, there will be a corresponding increase in the number of towing machines as well. During the first half of 1988, sales of machine-drawn plows throughout the province totaled 90, up 45.2 percent from the same period in 1987. As of the end of 1987, the number of farm plant protection machines in rural villages was 18.5 percent

higher than during 1986, and market sales prospects for 1988 are good. During the first half of 1988, 258 plant protection machines were sold throughout Shaanxi, a 51.8 percent increase over the same period in 1987. In addition, as of the end of June 1988, 12,313 farm pumps had been sold throughout the province, up 78.6 percent over the same period in 1987. This included sales of 9,467 submersible electric pumps, a 105.8 percent increase over the same period in 1987.

### **Hong Kong Pork Supply Base Proposed for Shenzhen**

40060056d Beijing JINGJI CANKAO in Chinese  
12 Sep 88 p 2

[Article by Lin Yudong 2651 5940 2767: "Fine Returns From Establishment of Porker Base and Slaughterhouse at Shenzhen. Losses In Transportation Over Great Distances Exceed 100 Million Yuan"]

[Text] The Shenzhen Agricultural Office recently recommended to the city government establishing a live hog export base and slaughterhouse to supply Hong Kong for the early realization of the goal of "moving hogs from the north to the south to supply Hong Kong." They maintained that this would reduce economic losses, increase foreign exchange earnings, moderate the transportation shortage, and insure supplies of fresh pork to Hong Kong.

China annually exports approximately 2.5 million live hogs to Hong Kong (excluding 500,000 suckling pigs), most of which come from Henan, Hubei, Hunan, Jiangxi, Zhejiang, Fujian, Guangdong, Guangxi, Shanghai, and Wuhan. These millions of hogs are shipped over great distances to Shenzhen for export across the border to Hong Kong. Numerous problems and shortcomings exist in this method in terms of transportation costs and pressure, losses in transit, and control of epidemic diseases. According to cost calculations for the "movement of northern hogs to the south" made for many years by units concerned, the minimum transportation cost is 40 yuan per hog, or a total of 100 million yuan per year. Weight loss and death rate figured at a general 15 percent totals 110 million renminbi each year. Comrades in charge at the Shenzhen Agricultural Office believe that the establishment of a live hog export base in Shenzhen could readily solve these problems.

The Shenzhen Agricultural Office also suggested establishing a slaughterhouse to switch from the sale of live hogs to the sale of fresh pork. If 1 million of the 2.5 million live hogs supplied to Hong Kong were kept in Shenzhen for slaughtering, and processing to Hong Kong assured on the same day, 10 million yuan could be realized from slaughtering fees alone, plus another 3.7 million in slaughter taxes. If some of the pork and entrails were processed in various ways and then exported, the value could also be increased. In addition, an appreciable sum could be made from the refining of large amounts of leftovers.



During the past several years, Shenzhen City has imported 23 production lines able to handle 10,000 hogs a year, and it has bred more than 20,000 Dika [6611 0595] Sigelang [2448 2706 2597] Duroc, and Sanjiang hybrid hogs, which are lean meat, fine breed hogs (having a lean meat rate of 60 percent or more) that are most welcome in the Hong Kong market. In addition, there has been a general promotion throughout the city of advanced management methods including the use of artificially blended feeds, disease and epidemic prevention. This has brought about a rapid development of hog raising endeavors through the city, and the feeding of approximately 400,000 hogs per year. The city now has industrial production facilities and technical capabilities to provide 400,000 tons of fodder per year, and can satisfy the complete artificially blended feed requirements of 1.5 million hogs. In addition, a service system has been set up throughout the city for epidemic and disease prevention, and the management of hog raising. A veterinary science and technology corps has been trained that is substantially able to control epidemics, and to insure that fresh pork exports meet international sanitation and safety standards. So as not to affect the foreign exchange earnings of the provinces, municipalities, and regions already engaged in the export of live hogs, these provinces, municipalities, and regions can cooperate with Shenzhen City in a joint venture to operate a live hog export base, and divide foreign exchange earnings.

**Revision in Xinjiang Agricultural Tax System**  
40060056a Urumqi XINJIANG RIBAO in Chinese  
11 Sep 88 p 1

[Article: "Reform of Agricultural Tax System; Equalization of Agricultural Tax Burden. Autonomous Region People's Government Promulgates 'Provisional Regulations for Agricultural Taxes and Taxes on Farm and Forest Specialty Produce.' 'Regulations' To Take Effect This Year. Will Overcome the Longstanding Unequal and Inequitable Tax Burden on the Peasants in the Region, and Will Promote All Around Development of Agricultural Production."]

[Text] Recently, the Autonomous Region People's Government promulgated "Provisional Regulations for Agricultural Taxes and Taxes on Farm and Forestry Produce in the Xinjiang Uygur Autonomous Region," which are to take effect this year. This is the first major reform of the region's agricultural tax system in 30 years. It will overcome the longstanding unequal and unfair tax burden on the peasants in the region, and promote all around development of agricultural production.

The "Regulations" basically maintain the existing scope of agricultural tax levies. While making no changes in the overall amount of taxes collected throughout the region, they divide up all farm crops into three categories in terms of average earnings from them, and apply a unified designated tax rate for the collection of agricultural taxes. In

category 1 are grain crops, pulses, tubers, livestock fodder, and pasture grasses on which the agricultural tax is 4 kilograms of wheat per mu. In category 2 are cotton, oil bearing crops, sugarbeets, tobacco, hemp, and vegetables on which the agricultural tax is 6 kilograms of wheat per mu. In category 3 are vegetables grown in urban areas on which the agricultural tax is 12 kilograms of wheat per mu. Henceforth, all crops, no matter whether grown in southern or northern Xinjiang, in the rural collective economy or on state-owned farms, or grown under unified administration or under contract are to be taxed at the same rates, the more grown, the greater the tax. The formation of a fair and equitable tax base will overcome the clearly inequitable situation that existed formerly when the tax bill for growing grain or other crops on the same mu of land was different, high in some cases and low in others, and sometimes varying widely.

The "Regulations" levy a new farm and forest specialty tax on high earning specialty crops. This includes income from specialty crops such as melons, fruits, hops, and from forest saplings. Except for those crops taxed at the category 1 tax rate of 4 kilograms of wheat per mu, these farm and forest specialty crops are taxed on the basis of average income from them. A farm and forest specialty tax will be levied on two different categories. In category 1 the tax is 10 kilograms of wheat per mu for melons, and fruits from which earnings are relatively low. In category 2 the tax is 16 kilograms of wheat per mu for fruits from which earnings are relatively high, such as apples, bergamot pears, and grapes, as well as hops, medicinal materials, spices, condiments, and saplings. A farm and forest specialty tax has long been levied in most inland provinces and regions. A 1983 State Council notice called for the levying of such a tax throughout the country, with a 5 year grace period being given Xinjiang because of its special circumstances.

The figuring of agricultural taxes and farm and forest specialty product taxes on the basis of a fixed per mu tax rate for different crop categories is based on the principle of greater the income, greater the tax burden. It provides for a greater spread in the tax burden, limits the maximum burden, and sets a minimum burden, bringing the rural tax collection burden under effective control, thereby fundamentally preventing problems arising of too heavy and too light tax burdens. With the implementation of this "Regulation," former agricultural tax payments will be eliminated, and new tax bills will be calculated once yearly.

The "Regulations" calculate agricultural taxes based on crop and area, and farm and forest special products taxes based on area sown. Levying taxes on the basis of reality solves a longstanding inequitable problem in the region of paying taxes though one has no land, and not paying taxes though one does have land. To encourage increased production and an expansion of the cropping index, the tax will be figured only once on multiple cropped areas. For perennial crops such as grapes, fruit trees, and hops, tax payments will begin on the second year of harvest.



For crops that are grown on scattered areas such as walnuts and figs, a tax may be levied on individual trees or prorated in terms of the numbers of such trees per mu.

The "Regulations" liberalize and improve methods for granting agricultural tax reductions or exemptions. Exemption from taxes for the reclamation of wasteland has been liberalized from the former 1 to 3 years to a uniform 5 years. Reductions in taxes for border area counties have been changed from a direct reduction at the time of assignment to a 30 percent per year tax

reduction, a hidden reduction thereby becoming an open reduction. With regard to reductions or exemptions from taxes as a result of natural disasters, the "Regulations" specifically provide that the calculation of reductions or exemptions is to be based on the extent of crop failure on the actual stricken area, and must be fairly specific. The "Regulations" also require tax collecting units to refund to taxpayers at once all sums that have been reduced or exempted from taxation, all retentions or diversions to be dealt with as violations of financial discipline.

## Hong Kong Publications Ponder Future

### Basic Law Versus Emigration

40050440 *Hong Kong CHIUSHIH NIENTAI [THE NINETIES]* in Chinese No 223, Aug 88 pp 42-43

[Article by Ho Li 0149 4539: "Discussion of Emigration Fever Remains Heated"]

[Text]

### The "Tepid" State

It has been 3 months since the promulgation of the Draft Basic Law for Solicitation of Opinions. The Hong Kong people's reaction to this first draft appears to be "tepid" and even "on the cold side" in general.

The Basic Law Advisory Committee now and then published the total number of copies of the first draft handed out to show the enthusiastic response of the people. But attendance at public hearings sponsored by the Basic Law Advisory Committee has been pitiful. At the public hearing of 9 June, only 30 people showed up, which was the lowest record and the coldest response ever.

On the other hand, many organizations are still carrying out discussions on the Basic Law. Recently, the Greater Federation of Lawyers and the Hong Kong Lawyers Association sent representatives to Britain to lobby for the support of public opinions when the House of Commons debated on the issue of the Basic Law in mid-July. This shows that those who are determined are still trying to do their best.

The Hong Kong Legislative Council held a 2-day debate on the Basic Law on 13 and 14 July, but it failed to create much interest and was much less successful as compared to last year's debate on the green book of political structure—45 legislators spoke at the last debate and only 27 spoke this time.

Probably because the first draft of the Basic Law is still in the stage of soliciting opinions, Chinese officials are ordered to "listen only, not talk," so they have not responded very much to some of Hong Kong's discussions and criticisms. Earlier, a group of Chinese officials and members of the drafting committee came to Hong Kong to "listen to opinions" and met representatives of many organizations or different trades and professions. However, on the occasions of "opinion hearings" arranged by the departments concerned, what usually happens is that "the Hong Kong people talk to themselves" without knowing whether or not Chinese officials and the drafting committee can hear them.

In sum, during the past few months, the Hong Kong people have indeed voiced many opinions on the Basic Law and discussed almost everything that can possibly be discussed. The most popular topic and the most

discussed issue is that the central government overemphasizes the demonstration of sovereignty, causing the so-called "high-degree autonomy" to deteriorate into a "low-degree autonomy."

### Main Contradiction: "A High Degree of Autonomy"

The most popular topic in the 2-day debate of the Legislative Council was still the issue of lacking a high degree of autonomy. Of 27 legislators who spoke at the debate, 20 mentioned this issue. Most of them think that the first draft of the Basic Law fails to implement the principle of a high degree of autonomy and even contravenes the Sino-British Joint Declaration in this regard. Especially the provisions of the first draft concerning the restrictions of judicial and final adjudication power, the power to interpret the Basic Law and examine constitutional violations, and nationwide laws applicable to Hong Kong make it impossible for Hong Kong to have a high degree of autonomy in the future.

Among other speakers, Chief Legislator Teng Lienju [6772 5571 1172], voiced four expectations:

- 1) Since the Basic Law should conform to not only the provisions but also the spirit of the Joint Declaration, the central government "must be generous, not stingy" when delegating power to the Hong Kong Special Administrative Region [SAR].
- 2) The Basic Law should be established on the basis of the modern political system currently used in Hong Kong, not the "outdated colonial ruling methods."
- 3) The Basic Law should set principles, not guidelines and policies, because setting hard and fast rules for policies can undermine autonomy.
- 4) The Basic Law must be as flexible as possible to leave room for development in the next 50 years. These expectations include many people's opinions on the first draft of the Basic Law in the past few months.

The most debated issue among the members of the Legislative Council is still about political structure. During Last year's debate on the green book of political structure, groups supporting and opposing the beginning of direct elections in 1988 clashed several times inside and outside the Legislative Council. Today, facing the first draft of the Basic Law, "main contradictions" are focused on the relation between the central government and the SAR, and the issue of political structure becomes a "secondary contradiction." As a matter of fact, within the Legislative Council, there are members of the organization that put forward the "Plan of 81" for industrial, business, and professional circles; there are also advocates for the "190 Plan" of democratic parties. Due to their different viewpoints, disputes are unavoidable between them. What is interesting is that although their "political views" are different, when mentioning the method for forming the SAR's first government, several legislators all supported the method of "through train" for transition, contrary to the Chinese authorities which oppose the method of "through train."

### The Confusion of the Political Structure Issue

When Hong Kong lobbyists went to Britain, they also focused on the issue of high-degree autonomy. For instance, representatives of two lawyers' organizations pointed out places in the Basic Law that do not conform, from a legal point of view, to the joint declaration. At the same time, there was another group of "lobbyists" who went to Britain. Hoping to get support, they took with them the "190 Plan" of democrats that suggests that the chief executive be elected through direct election and that no less than half of legislative members be elected through direct election.

In the past 2 years, there have been two major factions as far as the development of Hong Kong's political structure is concerned. They are the democratic faction which put forward the "190 Plan" and those people of industrial, business, and professional circles who are members of the Basic Law Advisory Committee and suggested the "Plan of 81." During last year's discussion of political structure, these two major factions engaged in fierce conflicts. Then the Basic Law Drafting Committee included the political structural plans of both factions in the appendix of the first draft of the Basic Law. In addition to these plans, the appendix of the first draft includes a plan that is even more conservative than the "Plan of 81" and a so-called "compromise plan" which seems to be somewhere in between the "Plan of 81" and the "190 Plan."

Before the promulgation of the first draft of the Basic Law, there were rumors saying that the "81-member group" was going to launch a fierce offense, made a video tape to go all out to promote their plan, and drew a fairly "gloomy" negative picture for the democratic political structure in the tape. Later, the democratic faction also made a video tape to promote the "190 Plan" and compete with their rivals. However, fierce conflicts like those in last year's discussion of political structure have not yet occurred so far. According to rumors in the political circle, the "Plan of 81" does not appear to be the "favorite" of the PRC. They say the reason is that the PRC is afraid that the industrial and commercial circles may become a dominant force that is difficult to control and manipulate by the central government and that the plan is "uneven" in regard to the distribution of interests. Some people have also noticed that some organization members of Chinese background are striving to promote the "compromise plan" that almost did not get included in the first draft (or other forms of "compromise plan").

How to choose a final plan among so many plans affords food for thought. But there is a danger in overemphasizing the debate on these plans; that is, we will lose our orientation among these plans and thereby ignore greater "drawbacks" such as the possibility of the central government intervening in Hong Kong's "internal affairs" and copying current colonial systems and its management and ruling methods.

### Emigration: A More Popular Topic

After the promulgation of the Draft Basic Law for Solicitation of Opinions, nobody seemed to think that it was perfect. If it is not perfect and has quite a few drawbacks, why is it that Hong Kong people's response appears to be "tepid" and "on the cold side" in general?

Some people say that with limited legal knowledge, it is not easy to understand the Basic Law which covers complicated subjects and contains numerous provisions because it is quite technical in many places and legal provisions often are interrelated. Because of this, the general public cannot advance any opinions even though they know that the first draft has many drawbacks. Some people say that after the battle of last years' discussion of political structure, the public has learned a "lesson" and witnessed that public opinions were distorted to such a degree under the pressure of the PRC that they do not want to be "taken" again. Others say that no matter how wonderful and earthshaking the Basic Law is made to be, how do you know that the Chinese side will continue to observe it after 1997 and not fall short of its promise or even break its promise completely?

The issue boils down to faith, and an important "index" for faith is emigration.

There was a time when neither side—Chinese or British—would admit that Hong Kong's emigration situation was serious. Hong Kong's government officials published some specious figures in an attempt to prove that the situation was normal while Chinese officials argued that Hong Kong's emigration situation was "blown out of proportion by some newspapers." Later, since facts were evident, the British side changed its tone and the Hong Kong government announced the establishment of a special group to study Hong Kong's brain drain. The Chinese side also made great efforts to appease the public. For instance, Xu Jiatun [6079 1367 1470], head of the Hong Kong Branch of the Xinhua News Agency, praised Hong Kong's capitalism.

Recently, things have changed regarding the emigration fever and the attitude of the authorities. First, newspapers reported that a secret study conducted by the Hong Kong government indicates that Hong Kong's brain drain is serious, that as many as 48,000 people will be expected to emigrate this year, much more than the original estimate of 27,000 people. The number of emigrants is expected to grow in the future. The study also shows that almost half of the Hong Kong people holding foreign passports have an educational level at and above the preparatory course of college and belong to the professional, middle class.

Later, the overseas edition of a Chinese weekly magazine LIAOWANG published (on 18 July) an article under the title of "Hong Kong's Emigration, Confidence, and Future," stating that Hong Kong's emigration is a time-honored phenomenon which is not serious at all and that

emigration of technical personnel and investors have increased but there is no cause for concern. This article states that the 1997 factor is not the "sole cause" for the emigration of Hong Kong people, that the public should have confidence in Hong Kong's future, that Hong Kong does not have a "serious crisis of confidence," and that the future will be "clearer, surer, and brighter."

About the same time when Chinese periodicals tried to "lessen" the magnitude of the emigration problem and confidence crisis, a newspaper survey of over 30 Hong Kong companies showed that the ratio of emigrants continues to increase among the employees of these companies, that most emigrants come from the middle management level, that 35 percent of emigrants have a college degree, and that 70 percent of them admit that their reasons for emigration are a lack of confidence in Hong Kong's future, fears for the restriction of freedom and lower living standards in the future, and fear for political instability of China.

The Hong Kong people are losing interest in the discussion of the Basic Law but not in the discussion of emigration fever. In comparison, the latter seems to be the more popular topic.

#### **Lack of Faith**

40050440 Hong Kong CHENG MING  
[CONTENDING] in Chinese No 130, Aug 88 pp 71-72

[Article by Hsi Yangfeng 1119 7122 1496: "Faith—Hong Kong's Ultimate Problem"]

[Text]

#### **The Big Gap Between the Promise and Reality**

Recently emigration fever has again become a popular topic for the Hong Kong people. This is the "second wave" since Hong Kong's future was put on the agenda. The "first wave" was during the Sino-British negotiation on Hong Kong's future. At the time, those who were pessimistic about Hong Kong's future already began to emigrate to foreign countries while those optimists among Chinese, British, and the Hong Kong people claimed that once the Sino-British Joint Declaration is signed and once the PRC promises that "one country, two systems" will be practiced in the Hong Kong Special Administrative Region [SAR], that "Hong Kong will be administered by the people of Hong Kong," and that capitalism will remain unchanged for 50 years, the people of Hong Kong will regain their faith in their future, the emigration fever will die down, and those who have already emigrated will "return to their home." Deng Xiaoping holds his own unique view on the faith issue of the Hong Kong people. He said: "The lack of faith among the people of Hong Kong is not the real opinion of the Hong Kong people. At the present, the content of Sino-British negotiation has not been published and many Hong Kong people do not understand the policy of the central government. Once they really understand it, they will have complete faith."

Such optimistic views are, after all, subjective desire and wishful thinking. Now, 4 years later, these views have been crushed by hard facts. The Hong Kong people did not feel any relief because of the signing of the Joint Declaration. There is no sign of restoration of faith.

When Hong Kong reporters mentioned the Hong Kong people's faith issue 4 years ago, Zhao Ziyang responded with a question "what are you afraid of." In fact, he ought to know. What on earth are the Hong Kong people afraid of? The answer is very simple: "The Communist Party."

The so-called faith issue is, in the final analysis, an issue of trust. The distrust that the Hong Kong people harbor in their minds toward the Communist Party of China is the fundamental issue. Deng Xiaoping once said: "We (the CPC) mean what we say." As everyone knows that about a third of Hong Kong's population came from the mainland in the past 40 years. They witnessed numerous "rainstorms" and personally experienced various "political storms" in mainland China. They know very well the true value of "we mean what we say."

#### **Shanghai and Tibet Serve as Mirrors**

Someone sighed once: "Yesterday's Shanghai is today's Hong Kong and today's Shanghai is tomorrow's Hong Kong." Looking back on the eve of Shanghai's liberation, some people in Shanghai were pessimistic while others were optimistic about their future. The first group fled while the second group stayed. Today's success of Hong Kong as a world financial center should be attributed largely to the first group of people who fled from Shanghai. Without the influx of large amounts of funds and human resources, Hong Kong probably would have to stay asleep a few more decades. Now let us take a look at the fate of those who decided to stay in China. At the time the CPC made a lot of efforts to appease those capitalists who decided to stay. Zhou Enlai and Chen Yi once said: New China complains not because there are too many capitalists but because there are not enough; the future economic construction of the state needs capitalists' active involvement. They hoped that capitalists could make contributions to national economic construction. However, the beautiful dream of the optimists lasted only briefly. At the time, they could never imagine that they life would have a tragic ending.

Deng Xiaoping recently told foreign guests: "We will build a few more Hong Kong's in the inland." This ought to be the biggest joke. Why can't Shanghai, then a world famous international city, regain its prestige after 40 years?

Since today's Hong Kong is different from the Shanghai of that time due to the differences of historical backgrounds, the CPC's tactics are also different. At least, then Shanghai did not have such "lenient" treatment as "one country, two systems," "Hong Kong should be administered by the Hong Kong people," and "capitalism will remain unchanged for 50 years"—promises made by the CPC to Hong Kong. In spite of this, the

Hong Kong people still do not feel optimistic about their future. The problem is that China is a socialist country and that the CPC is in power. "The party leads everything" is a consistent principle of the CPC. Will the CPC give up their principle to keep their promises?

During the peaceful liberation of Tibet, the CPC and Dalai Lama signed the "17 Regulations" which granted Tibet a high degree of autonomy including recognizing the status of Dalai Lama as the spiritual leader of Tibet, respecting the religious freedom of Tibetans, and even allowing Tibet to keep its previous Tibetan armed forces. When the Lama went into exile and the liberation army entered Lhasa, the "honeymoon period" for the Dalai Lama and the CPC suddenly ended. The so-called "autonomous region" and "Tibet administered by Tibetans" became a fairy tale. As for how Tibet is doing today, it is clear to everybody without explanation.

Now let us take a look at today's situation after reviewing history. Under the "four persistences," the CPC today cares about nothing but the power and opinions of the party. The so-called public opinions, in their eyes, are no more than the "fake democracy" of a capitalist society and a "political game" of the bourgeoisie. Therefore, the book that carries the signatures of 1 million Hong Kong people who oppose the building of the Daya Gulf Nuclear Plant is nothing but a pile of waste paper in the eyes of CPC leaders. Since they think themselves as the "representatives" of 1 billion people, 1 million people do not mean anything to them. The direct election of 1988 would have given the Hong Kong people some new hope if it had not been aborted by the intervention of an invisible hand. These two incidents took place in Today's Hong Kong under a British flag during the period of Deng Xiaoping's open policy and reform. This exposed once again the fact that the party's nature has not changed at all, nor has the principle that the party's interests precede everything else.

#### All Powers Are in the Hands of the CPC

"One country, two systems," "Hong Kong should be administered by the Hong Kong people," and "capitalism remains unchanged for 50 years"—all these are already too "lenient" from the viewpoint of the CPC. Then, how do the Hong Kong people view this issue?

Let us talk about the so-called "one country, two systems." Hong Kong is only a special administrative region under the control of the central government. Such a subordinate relation is like the relation of a western-style restaurant to a large hotel or that of a subsidiary to a parent company. It is a relation between a father and a son not between brothers. That the NPC has the power to interpret and amend the Basic Law means that the CPC holds the power over major issues and that the Hong Kong SAR is nothing but a piece in a chess game. This means that if things change, all the "favors" bestowed by the central government to the Hong Kong SAR can be taken away or become useless. In the past,

the "17 Regulations" of Tibet turned into a piece of waste paper. Why would Hong Kong's Sino-British Joint Declaration and Basic Law not turn into a piece of waste paper?

Let us talk about the so-called "administration of Hong Kong by the Hong Kong people." First, take a look at the members of the Basic Law Drafting Committee who represent Hong Kong. All of them were appointed by the CPC, not elected by the Hong Kong people themselves. What kind of roles are they really playing? Obviously, the PRC is the director and the Hong Kong side is the actor. Whose opinions do the representatives of Hong Kong represent—the Hong Kong people or the CPC? The answer is very clear to the Hong Kong people.

Who will be qualified to participate in the "administration of Hong Kong" in the future SAR? Deng Xiaoping has clearly answered this question. He said: "The standard for the administration of Hong Kong is that Hong Kong must be administered by a group of Hong Kong people who are mostly patriots, and the future Hong Kong government should be mainly composed of patriots." Therefore, only "patriotic Hong Kong people" are qualified to be appointed for the "administration of Hong Kong." In fact, these "future masters" are really nothing but tame and obedient instruments of the party—namely "political flower vases and rubber stamps."

Direct elections (general elections) are a concrete expression of capitalist democracy. Without direct elections, there can be no real capitalism. How can we call it true capitalism if direct elections are replaced with the traditional "democratic consultation" and appointment system of socialism? The direct election is a concrete way to show that the people are the master, to reflect the people's opinions, and to supervise government operations. Without giving the people such basic rights, how can it be called "a high degree of autonomy" and "a high degree of democracy?"

#### No Change if the Policy Is Correct?

Deng Xiaoping knows very well that the Hong Kong people have no faith in the promise that "capitalism will remain unchanged for 50 years." In view of this point, he reiterated his stand. He said: "Some people wonder if this policy will change. I say it won't. The central issue is whether this policy is correct. If it is correct, it won't change; if it isn't, it probably will." Deng Xiaoping has stated clearly that whether or not the policy will change is determined by whether or not it is correct. He also said: "The purpose of saying no change for 50 years is not to appease the Hong Kong people but to take into account the fact that Hong Kong's prosperity and stability are closely linked to China's development strategy." Linking Hong Kong's future to China's development strategy indicates that the Hong Kong People's fate will be completely in the hands of Beijing's leaders. Some people describe this plot as using the "wonder drug" of

Hong Kong's capitalism to treat the "chronic and stubborn disease" of China's socialism. This is the key of the problem. Judged by China's old trouble of control and decontrol, if Hong Kong's "wonder drug" does not work and China's "chronic and stubborn disease" does not cure, Deng Xiaoping is bound to think that "the policy is not correct" and, out of anger, change his promise from "no change for capitalism in 50 years" to "must make drastic changes in capitalism." By then, Hong Kong will have no use value, promises such as "one country, two system," "Hong Kong will be administered by the Hong Kong people," and "capitalism will remain unchanged for 50 years" will become the "17 Regulations" of Tibet, and Hong Kong will be unable to avoid the misfortune of Tibet.

#### **Varied Standards for "Loving the Motherland"**

The political motive for creating the political slogan "love the motherland and Hong Kong" is to divide, attack, and disintegrate the democratic movement of the Hong Kong people. Under the extreme pressure, those who understand the times have already raised their hands in surrender and bowed their heads in submission. Since these people have surrendered on their own, they are naturally qualified to be included in the rank of "patriotic Hong Kong residents." Those "democratic fighters" who dare to go against the current or who have differing political views, are treated with the CPC's old tricks—putting on labels and beating with a stick.

"Love the motherland and Hong Kong" is used, as a matter of fact, a "band" to put on the heads of the Hong Kong people to keep them under control. After 1997, the Hong Kong people "must behave themselves and are not allowed to make any remarks or moves without authorization." Whoever dares to violate the "four persistences" in words or deeds will be regarded as that he does not love his motherland and Hong Kong and attempt to sabotage Hong Kong's prosperity and stability. He may

be charged with undermining the reunification of the motherland and "one country, two systems." It is very possible that he may even be charged with treason and counterrevolution. Article 23 of Chapter 2 of the Basic Law (Draft) states: "The Hong Kong SAR shall prohibit by law any act designed to undermine national unity or subvert the Central People's Government." Given this provision, it is not hard to imagine that all the capitalist freedoms enjoyed today by the Hong Kong people will come to an end when the British flag is lowered.

It is really amazing that today there are still people who close their eyes and say such nonsense as "Hong Kong's emigration problem is not serious and it is only exaggerated by the media." The U.S., Canadian, and Australian consulates in Hong Kong have published Hong Kong's emigration figures, and the Hong Kong governor has openly admitted that Hong Kong's emigration problem is serious. Can we simply regard them as "exaggeration" with "ulterior motives" or "complaints about imaginery illness?"

Why is the grass greener in other countries? The answer is, in the final analysis, loss of faith in Hong Kong's future. The Hong Kong people turn pale at the mere mentioning of the capricious workstyle of the Communist Party in the past and they still have lingering fears as if it were yesterday. Today, the time has not come but that invisible hand is already everywhere and interfering with everything. Who on earth is administering Hong Kong today? Who will be the master of Hong Kong after 1997? There is no need to argue any more. Before the Hong Kong people, there is no future, only anxiety. Since the final decision has been made on Hong Kong's fate and it is impossible to reverse it, those Hong Kong people who have lost faith in future can only go where there is light, like a moth attracted to fire, and run to where there is freedom, just as the American maxim goes: "My motherland is where freedom is."

10

This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, economic, military, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available source; it should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed, with personal and place names rendered in accordance with FBIS transliteration style.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

#### SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Soviet Union, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6735, or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.